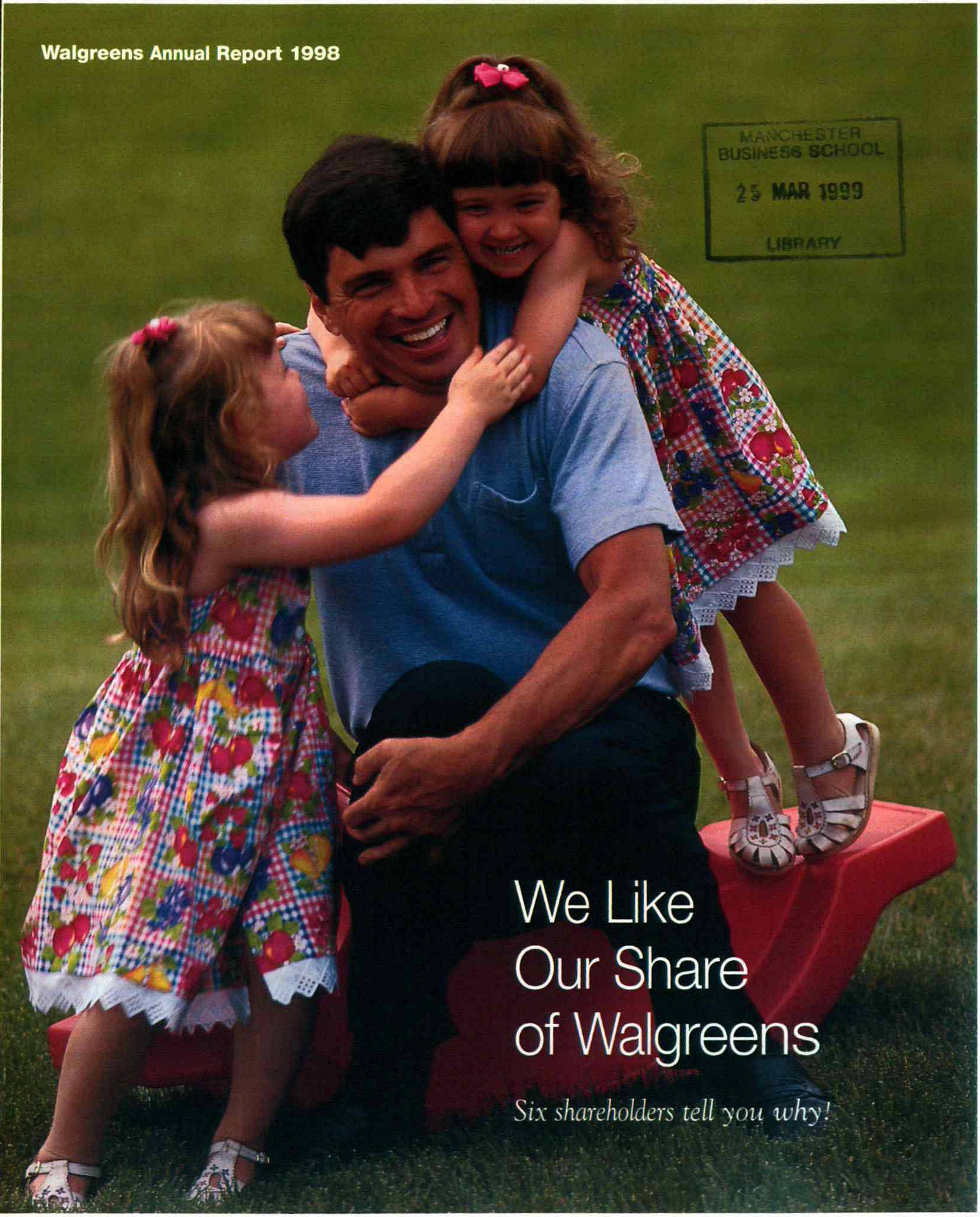


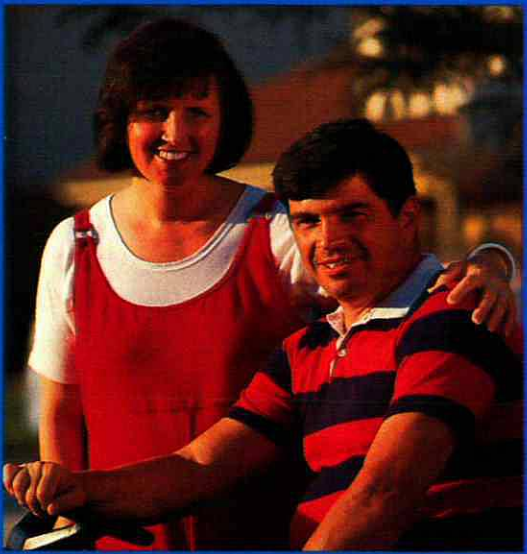
Walgreens Annual Report 1998

We Like Our Share of Walgreens

Six shareholders tell you why!

Walgreen Co.

Walgreens, one of the fastest growing retailers in the United States, leads the chain drugstore industry in sales and profits. Our strategy is to be the nation's most convenient—and most technologically advanced—healthcare retailer. Sales for 1998 reached $15.3 billion, produced by 2,549 stores in 35 states and Puerto Rico. Founded in 1901, Walgreens today has 90,000 employees and 45,000 shareholders of record. Our drugstores serve 2.5 million customers daily and average $5.8 million in annual sales per unit. That's $567 per square foot, among the highest in the industry. Walgreens is guided by a conservative fiscal policy and dedicated to aggressive growth. We've paid dividends in every quarter since 1933 and have raised them in each of the past 22 years.



About the Cover

"Walgreen stock paid for our home and is providing financial security for our twins," say shareholders Dennis and Corinne Reidy (above). Thirteen years ago, Reidy found himself with an inheritance and no idea how to invest it. "I'd had no luck in the stock market," he says, "and was leery when my banker suggested I purchase 1,000 shares of Walgreens. 'Just sit back and watch,' she told me." Well, that's what the Reidys have done. The original investment of $37,000 is now worth over $300,000, and they've religiously added to their holdings. "I'm particularly impressed by the quality – and human approach – of top management," says Dennis, who lives in Darien, Illinois. "One of the first things we did when Nicole (cover, right) and Briana were born four years ago was buy them 100 shares of Walgreens each."

1998 Highlights

- **We opened a record 304 stores in 1998, 94 of which were relocations to more convenient sites. Well over half the chain is now freestanding. The average age of a Walgreen store today is seven years. By our 100th anniversary in 2001, that number will fall to under six years.**
- **We've entered 43 new markets since 1992 and will add several more in 1999.**
- **We filled 226 million prescriptions last year – approximately 9 percent of the U.S. retail market. Pharmacy is now half our business.**
- **Drive-thru prescription service is now offered in nearly 1,200 Walgreen pharmacies and one-hour photo is available in over 90 percent of our stores.**
- ***Walgreens Health Initiatives*, the company's managed care division, increased sales 29 percent, to nearly $600 million, in fiscal 1998. Its two mail service facilities dispensed nearly six million prescriptions – more than 19,000 per day.**
- **What our stock is worth: Walgreens market capitalization grew 44 percent – to more than $19 billion – just in the past year. Among U.S. retailers in the S&P 500, we had the fourth highest market capitalization as of August 31, 1998, topped by Wal-Mart, Home Depot and The Gap.**
- **We ranked 108th on the *Fortune 500* list this year. Among *Fortune 500* retailers, our sales volume ranked 14th and our profits, 12th.**
- **For the fifth consecutive year, Walgreens was included on *Fortune* magazine's "Most Admired Corporations in America" list. We rose from second to first place among food and drug retailers and were number one in six of the eight categories measured: management quality, innovativeness, investment value, financial soundness, talent and use of corporate assets.**

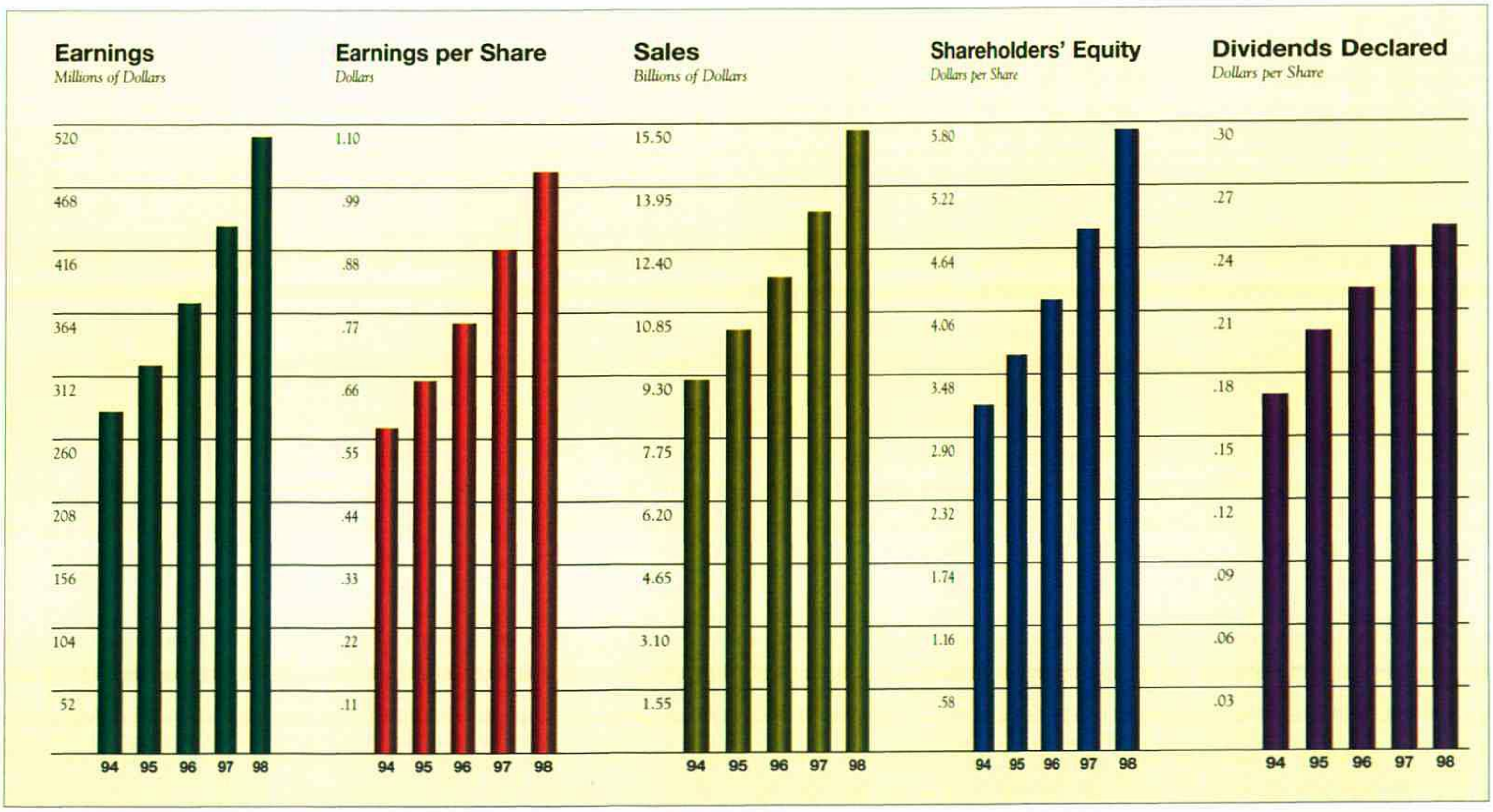
Financial Highlights

For the Years Ended August 31, 1998 and 1997 *(Dollars in Millions, except per share data)*	1998	1997	Increase
Net Sales	$15,307	$13,363	14.5%
Net Earnings	$ 511	$ 436	17.2%
Net Earnings per Common Share (diluted)	$ 1.02	$ .88	15.9%
Shareholders' Equity	$ 2,849	$ 2,373	20.1%
Return on Average Shareholders' Equity	19.6%	19.8%	
Closing Stock Price per Common Share	$ 38½	$ 26 15/16	
Total Market Value of Common Stock	$19,182	$13,301	44.2%
Dividends Declared per Common Share	$ .25	$ .24	4.2%

Walgreen Stock Performance

10 years: On August 31, 1988, 100 shares of Walgreen stock sold for $2,888. Ten years later, on August 31, 1998, those 100 shares, having split three times, were 800 shares worth $30,800, for a gain of 967 percent.

20 years: On August 31, 1978, 100 shares of Walgreen stock sold for $2,800. Twenty years later, those 100 shares, having split six times, were 6,400 shares worth $246,400, for a gain of 8,700 percent.



Letter to Shareholders

November 18, 1998

L. Daniel Jorndt (left) and Charles R. Walgreen III (right) with Glenn S. Kraiss, who will retire next year as Executive Vice President of Store Operations with 50 years of service.

Somewhere in the United States, a Walgreen drugstore is celebrating its first day of business. You can bet on it...whether you're reading this on a raw November day in 1998 or sometime next summer when portable fans top our chainwide best-seller list.

We opened a record 304 stores in 1998 and have the locations in the pipeline to add at least a store a day as we march toward the millennium. Nor will the band stop playing in the year 2000.

We're not just interested in earnings... we're interested in *quality* earnings.

The story of Walgreens is of vitality and growth built on a solid century of retail experience. The stock market often moves – at least temporarily – on flashy press releases and "new directions." That's not our style...nor is it our business. Call us dull – and some do – but we'll match our 24 consecutive years of record sales and earnings with any *Fortune 200* company (we're number 108, to be exact). *And* we'll take the stock appreciation the market has rewarded our longstanding consistency.

Let's Do the Numbers

Fiscal 1998 started strong and ended stronger. Earnings climbed more than 17 percent to $511 million, or $1.02 per share, on a 14.5 percent sales increase. Total sales for the year were $15.3 billion, solidifying our position as the top drugstore chain in America and the nation's 14th largest retailer. Sales in comparable stores (open more than a year) rose 9.4 percent, led by comparable prescription sales, up 15.6 percent.

At Walgreens, we're not just interested in earnings...we're interested in *quality* earnings. Most indicative of our strength is operating income, up nearly 18 percent despite LIFO charges which were $31 million higher than in 1997.

And what you see is what you get. We eschew one-time write-offs, we pay as we go and we're essentially debt-free. Store closings and their lease liabilities, for example, are written off immediately as a charge against earnings – $125 million just in the past five years.

Lowering Our Cost of Doing Business

Accountants call it SG&A – letters which stand for *selling, general and administrative costs*. What does that include? Everything but the cost of the goods which fill our shelves. And why is it important? Because the control of those three letters is the key to operating increasingly profitable stores.

Walgreens SG&A dropped from 22.2 percent of sales in 1997 to 21.8 percent of sales in 1998. This excellent expense control was particularly apparent in payroll, advertising and headquarters' costs. We will continue to reduce SG&A through aggressive technology development; strong and disciplined operations; and by spreading the cost for items such as advertising and corporate staff over a larger and larger number of stores.

Momentum! Netting It Out

Walgreens *net* number of new stores in 1998 – minus relocations and permanent closings – was a record 191. Between 1993 and 2000, we will open a *net* of 1,250 new stores – that's a major chain all on its own. In addition, we'll relocate 540 units during those seven years. Just in 1999, capital expenditures should top $750 million, the largest chunk targeted for store growth.

Our 3,000th store will open during the year 2000 and we've set a goal of 6,000 by the year 2010. Contrary to the consolidation so prevalent in our industry, Walgreens growth is internally generated – we haven't made a major acquisition since the mid 1980s.

Is it possible to keep growing at this rate? *Absolutely* – in both new and existing markets. The best example is our hometown market of Chicago, where we currently operate more than 300 stores, and have another 100 coming.

As for new markets, we've entered 43 since 1992 and will add several more, including Boise, Reno and Palm Springs, within the next several months. Additional major entries will be announced in early 1999.

For Drugstores, It's the Best of Times

The demographics couldn't be better. We're not the only drugstore chain posting double-digit prescription sales increases...and it doesn't take a brain surgeon to figure out why more and more non-drugstore retailers are beefing up their pharmacies. The pills – both prescription and over-the-counter – start to flow after age 50...precisely the stage of life our huge "boomer" population is now entering.

More good news? A healthy pipeline of new pharmaceuticals, the increased usage of drugs as more people are eligible for prescription coverage through managed care plans, and the demand for convenience by an ever-busier population.

In 1999 capital expenditures should top $750 million, the largest chunk targeted for store growth.

Of those three items, Walgreens shines brightest with convenience. We developed the freestanding location concept in the 1980s and have made far faster progress to implement this than competition. Today, more than half our stores are already on freestanding, neighborhood corners... approximately 1,200 offer drive-thru prescription service...and one-hour photofinishing has been installed in over 90 percent of our stores.

What Keeps Us Awake Nights? Plenty!

Prescription margins continue to be pressured by managed care. The news, though, is better than a year ago. While our pharmacy margins haven't increased, they have leveled out. This is chiefly due to aggressive negotiation, including dropping six plans in the past six months because they didn't meet minimum profitability standards.

Competition is near the top of our "worry" list...and if it weren't, we'd expect you to be worried about *us*. Some of our competition is very, very good. We constantly ask ourselves, "What makes Walgreens better – and unique – for the customer?"

What else? *Competent staffs for our fast-expanding store base*, the potential of unexpected *government intervention* that could make it more costly for us to compete effectively, and *e-commerce* – where should we be in the world of Internet shopping?

What We Don't Worry About

Our strong balance sheet and cash position allow us to expand and improve as well as continually test new retail ideas. We can afford the patience it takes for new markets to become profitable. We can – and do – invest in our managed care subsidiary, *Walgreens Health Initiatives*, where volume increased 29 percent in 1998.

And we are in excellent shape when it comes to management succession. With few exceptions, our talent is home-grown, like Dave Bernauer, who will become our president in January. An equally talented manager will succeed our executive vice president of Store Operations, Glenn Kraiss, when he retires next year with 50 *years* of Walgreen service.

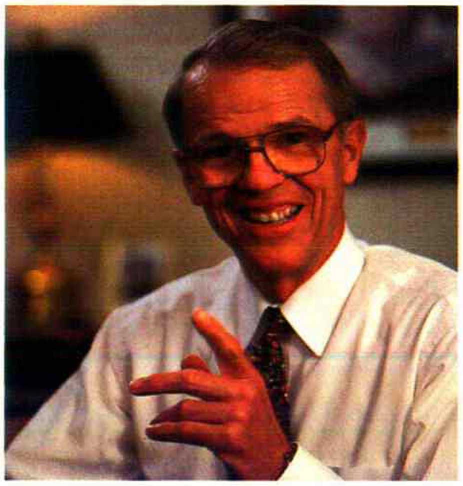
Glenn is an exceptional executive who personifies the Walgreen success story. Joining us as a soda fountain employee in 1949, Glenn rose through the ranks to lead our drugstores for the past 20 years. He has contributed so much – from astute business acumen...to an instinct for the best store sites...to a strong ethical standard applied both to running Walgreen drugstores and leading his life. We will miss his counsel and wish him and his wife, Mary, the very best.

Ninety thousand employees now work to assure Walgreens serves customers in a way which sets us apart from the competition. Heaven knows, we're not perfect in every store, every day. But that's what we strive for...and that's the goal we set in order that your investment – and ours – continues to realize the growth which has served us all so well.

Chairman of the Board

President and CEO

Interview: Dan Jorndt



Dan Jorndt
President and CEO

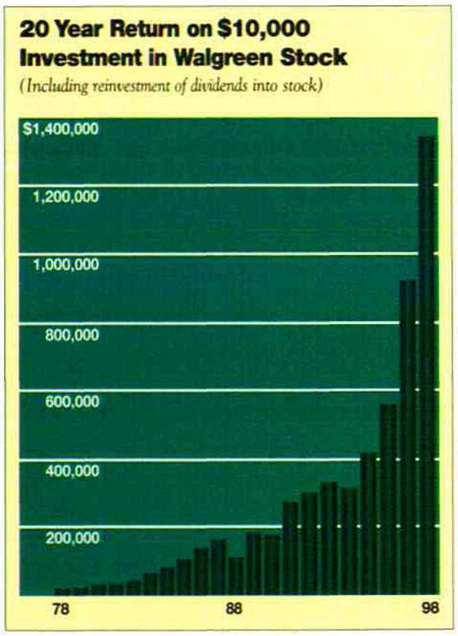
What is the most significant progress Walgreens has made since you were appointed president in 1990?

Our expansion into new markets. Ten years ago, we thought we could do this only via acquisition. But starting with Indianapolis in 1992, we learned we could be far more successful on our own. Some new markets – like Las Vegas and Dallas – have been overnight success stories. Others take longer: Like water dripping on a rock, we make inroads little by little. Consider the Pacific Northwest – we opened our first store there in 1995 and now have 30, with 15 more coming. It's taken three years, but sales in the earliest stores are running up more than 20 percent, while those in stores opened in 1996 and 1997 are up in the 30 to 50 percent range.

Walgreens will open more than a store a day during fiscal 1999. Our 3,000th store will open in 2000 and our goal is 6,000 stores across America by 2010.

What about progress *within* the store?

Our *average* managers know more about their stores today than the *best* managers knew ten years ago. The technology packed into our 14,000-square-foot drugstores boggles my mind. It tells managers everything from how long customers wait in the pharmacy to how many strings of 100-count clear Christmas lights they sold the day after Thanksgiving last year. We've added knowledge and training from Pharmacy to Photo and are reaping the benefits in higher sales.



Have you seen results from the $150 million investment in Intercom Plus?

With Intercom Plus chainwide for a year now, we're beginning to see improvement in our per-prescription filling cost. The system is also shortening wait times and focusing the professional pharmacist on what he or she is trained to do: verify prescriptions and counsel patients. With Intercom Plus, we've made a quantum leap over our competition and we'll spend more than $4 million in 1999 on enhancements.

Can Walgreens really meet its aggressive growth plans?

Absolutely. One reason is *where* we're growing. When hockey great Wayne Gretzky was asked the secret of his success, he replied, "I skate to where the puck *is going to be*… not where it *is*." Our point precisely. We're already powerful in four of the five states where the population is forecast to grow the fastest: Texas, California, Florida and Arizona. Plans for the fifth – Georgia – are under way.

What makes Walgreens different from every other retailer who sells aspirin and Coca-Cola?

For the customer? *Convenience*. For the shareholder? *Consistent profitability* which has earned a 28 percent annual compound return on investment over the past 20 years. But profits start with convenience. Total shopping hours are down 70 percent from 1980, which, if you're in retail, cannot be overstated. Shopping has become a strike mission: Get in, find what you want, buy it, get out. We call it "precision shopping" and we've spent the last decade making our stores responsive to the onslaught of time-starved customers. We'll keep doing that for one simple reason: *It's working*.

What is Walgreens doing about the "Y2K" problem? What happens at 12:01 a.m., January 1, 2000, when computers think they're back in the year 1900?

If you listen to what I call the "Chicken-Little" guys, everything from your living room lights to the Slurpee machine at the 7-Eleven will be knocked out. I can't speak for the rest of the world, but we've built Y2K-compatibility into the Intercom Plus pharmacy system and are on schedule with "fixes" to make sure our other systems are compatible. We estimate the cost to be approximately $10 million.

Culturally, how would you describe Walgreens?

Conservatively aggressive. We crawl, we walk, and when we know what works, we run with the best of them. We're not faddish, but are committed to intelligent, substantive change.

Dave Bernauer, currently CIO, will become president in January. What does he bring to the job?

You name it. No one is better prepared than Dave. In 31 years here, he's been a pharmacist, store and district manager, regional vice president. On the corporate side, he's served as treasurer, purchasing & marketing VP and head of information technology. Dave has set top levels of performance in every post he's managed.

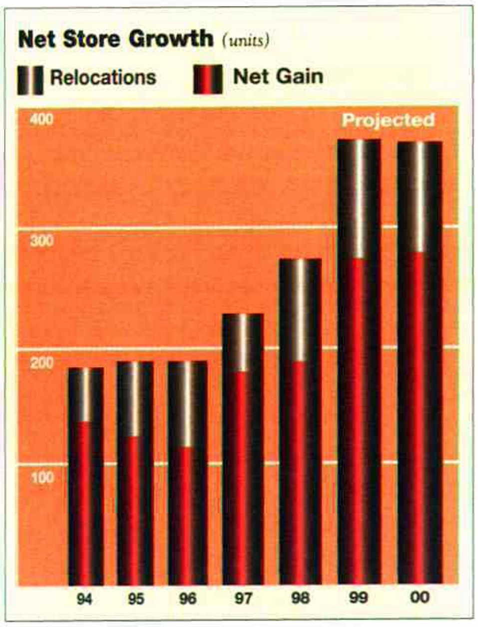
Walgreens opened its ninth Chicago Loop store in 1998 at the corner of Madison and Wells streets. Sales volume is already exceeding expectations.

If you could say one thing directly to shareholders, what would it be?

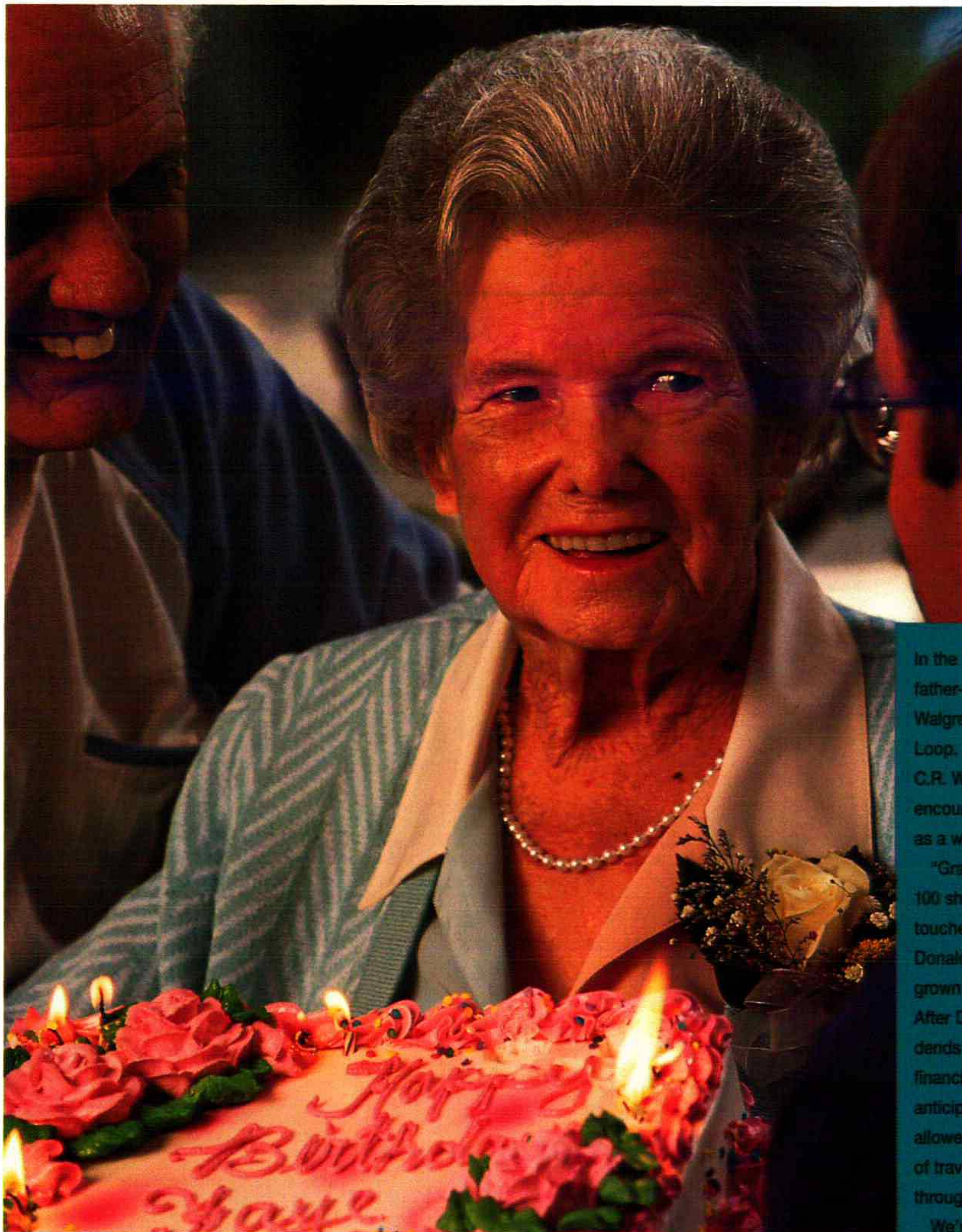
Shop with us! And then *talk* to us. If we do "good," we want to know...if service falls apart, we need to hear that, too. In my experience, most individual Walgreen shareholders are long-term investors who don't get too upset by the ups and downs of a rocky stock market. That's good, because it's nothing we can control. What we *can* control is our stores...we always, *always* want to be the premier drugstore operator.

Your biggest worry?

Complacency. The longer you're successful, the more you think you have all the answers. *Not true*. In business, says Andy Grove of Intel, "Only the paranoid survive." Well, we have a *passion* for paranoia. The average life of a *Fortune 500* company is 40 years. So essentially an organization must *change* or *die*. We're the competitor's target and we're harder to hit if we're moving... changing...constantly improving.



Between 1993 and 2000, Walgreens net number of new stores will be 1,250.



In the 1920s Faye Bauer's future father-in-law often lunched at a Walgreen drugstore in Chicago's Loop. There he met founder C.R. Walgreen Sr., who in 1929 encouraged Bauer to buy stock as a wedding gift for his son.

"Grandfather gave my parents 100 shares...which they never touched," says Faye's son, Donald (left). "With splits, it's grown to almost 30,000 shares. After Dad died in 1981, the dividends provided Mother more financial freedom than she ever anticipated. That extra income allowed her to pursue her love of travel, including a cruise through the Panama Canal."

We're sorry to report that Faye Bauer died in Florida in September, six months after her 90th birthday. "We miss her," says her grandson, Dan (right). "Especially her zest for life." And the Walgreen stock? "Well," says Dan, "we intend to do exactly what Grandmother did – hang on to it!"

"A wedding gift changed my family's life forever."

— Faye Bauer, Shareholder

Operations Review

"The most effective way to ensure the value of the future is to confront the present courageously and constructively." The quote is from the 18th century; at the cusp of the 21st century Walgreens is clearly focused on doing just that.

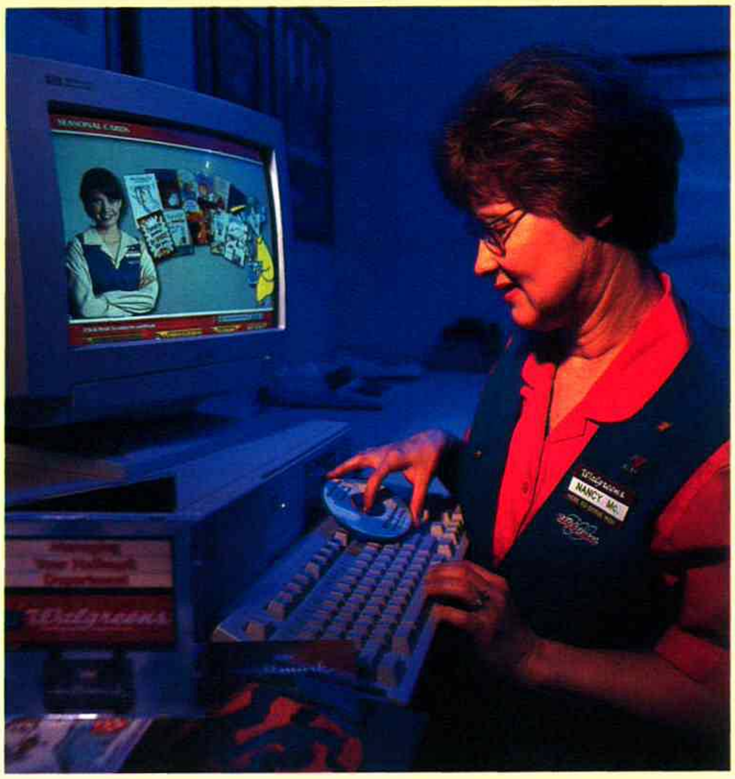
As we look ahead to our 100th anniversary, we continue to emphasize the present – supporting and improving our existing stores – while making plans for tomorrow's grand openings. Milestones come fast and furious for Walgreens. It's hard to believe we celebrated our 1,000th store opening in 1984...and will *triple* that number a mere 16 years later. And although our company is getting older, our stores are getting *younger.* The average Walgreen store today is just over seven years old... that will drop to less than six years by our centennial in 2001.

With all the good fortune Walgreens and our shareholders have enjoyed, what challenges remain? CEO Dan Jorndt thinks a continual commitment to change is needed. "We're never finished making improvements, trying new things, making mistakes, doing it over, thinking about how Walgreens could be better," he says.

Outward Bound

Our vision to remain the number one drugstore chain in sales and profits drives us to pursue what we believe are nearly limitless opportunities for growth. While we already enjoy the leading market share in more Top 50 drugstore markets than any competitor, we spent more than a half billion dollars in fiscal 1998 for new and relocated stores, updated technology and distribution center expansion. And capital expenditures for fiscal 1999 are estimated at more than $750 million.

"New markets are a big part of our long-term growth strategy," says Jorndt. "But they can be tough. Some take off like a rocket; others are slower. A typical Walgreen store takes about three years to get into the black, and this can be longer in some new cities. But we have deep patience – and deep pockets – on our side."



High-Tech Training = Better Service
Nancy McCarthy (above) was the store-level technical advisor for a CD-ROM interactive tutorial developed by Walgreens in partnership with Hallmark. The program is designed to boost Hallmark sales from their current $250 million-a-year range by increasing the knowledge of employees who maintain the greeting card department.

During fiscal 1998, we opened 304 locations, including 21 pharmacy-only stores, the latter primarily in Southern California. More than 365 free-standing stores will be opened in fiscal 1999 – the most in our 97-year history. And while competitors are adding "new" stores through acquisitions of older properties, we continue to build our own stores... on *our* terms.

Location, Location, Location

New stores are located on exceptional real estate in thriving cities. More than a dozen research analysts and almost two dozen real estate managers identify the opportunities and risks of new stores and markets. We use highly sophisticated demographic information to pinpoint precisely where we want to be and then pay up for the real estate to get there.

Before proposing a site for selection, we scrutinize the competition, medical activity, prescription volume, road patterns and sales forecasts. We don't consider just *where* a

Where Do We Go From Here?
Walgreens completed a major addition to its Windsor, Wisconsin, distribution center this year, nearly doubling the facility to 800,000 square feet. Similar work is under way in the Mount Vernon, Illinois, center. During the next decade, facilities in Pennsylvania, Arizona and California will be expanded and new, much larger distribution centers will be built in Florida and Texas.

store is going, we discuss *how* it will be situated on that site. What are the visual barriers? What side should the drive-thru be situated on? Which way should the parking spaces face?

"If a location doesn't meet our criteria, we won't take it just to 'be there,'" says president-elect Dave Bernauer. "For example, we have a pin on the map for Paducah, Kentucky. There's only one intersection where we want to go. It's not available today…it may never be available. We might have to wait several years. But we're not going to Paducah unless we can be on that corner."

Densing Up Existing Markets

With all this expansion, have we maxed out top markets like Chicago, San Francisco or Houston? Our research says "no." By adding stores, closing stores and relocating stores to more convenient sites, we continue to improve our share in established markets. Some comes from independent drugstores that are closing at the rate of six per day as they find it impossible to compete in the managed care environment.

Take St. Louis. Less than two years ago we built a large, freestanding store smack dab between two older stores…less than a mile apart. *Within two months*, the new store was turning a profit and the older two stores had *increased* their sales and prescription business.

Precision Shopping

Everything about our drugstores – from location to parking access to size to merchandise selection – is geared to make Walgreens the most convenient shopping experience possible. How deep is our selection? One reporter looking for a shoehorn traveled to more than seven different mass merchants and shoe stores before finding what he wanted…at Walgreens.

Our large selection has always driven convenience – customers know we carry a wider variety of products in the health and beauty aid categories than most larger mass merchants do. And we do it in a convenient-to-shop 14,000-square-foot store. The time it takes to park, run in, select an item and check out is quicker than most other retailers can boast.

And take our drive-thrus. Nearly every new store we open includes a drive-thru pharmacy. This adds work for our pharmacy staff and takes a lot of money and a lot of equipment. But it's good for business. Customers want it…so we do it.

Next Generation Shopping

Just as important to Walgreens convenience image is that we also stock items people *will* want. Our selection evolves with customer needs and tastes. One example is our expanding vitamin centers, where we now carry more than 600 items.

According to recent polls, 43 percent of American adults took some kind of vitamin or mineral last year, compared with 33 percent in 1991. And the trend continues. Americans spent over $3 billion on vitamins and herbal remedies last year – making them among the fastest-growing segments of Walgreens product mix.

Fifteen years ago, Andrew Barker (right) purchased Walgreen stock for the investment trust he manages, the largest and oldest mutual fund in the U.K. Today the trust owns well over a million shares.

Barker was introduced to Walgreens by Walter Kasten (left), Senior Vice President – International for Everen Securities. "I've followed WAG for 25 years," says Kasten. "Some say it's overvalued. I counter that while not cheap, Walgreens more than deserves its market premium. Management's focused vision and attention to detail, coupled with superb execution, have resulted in one of Wall Street's most enviable earnings records. The stock's produced an eye-popping 28 percent compound annual total return over the past 20 years, and increasingly favorable demographics suggest the best is yet to come.

"I love musicals," adds Kasten, "and in my opinion, Walgreens is the industry's *My Fair Lady.*"

"Walgreens is our largest U.S. holding and one of our very most successful investments."

— Andrew Barker, Director
Foreign and Colonial Investment Trust, London

"We like your stores as much as your financials."

— Lauren Drew, Investment Club President

"It was financial guru Peter Lynch who said, 'Buy what you know.' Walgreens fits that philosophy perfectly," explains Lauren Drew (second from left), president of a professional women's investment club in Libertyville, Illinois.

The club's 15 members include Evelyn Hartman (right) and Regina Keller (far right), shown here at a local Farmers' Market.

The 90 shares of Walgreen stock their club bought six years ago have grown to 360 today.

"Walgreens is the most dependable investment in our $180,000 portfolio," says Lauren. "It's long on consistency, short on volatility...and doesn't keep us up nights."

Currently, all stores have new nutrition centers selling everything from Vitamin A, C and E…to potassium and calcium…to kava kava and ginkgo biloba. In 1998, sales of vitamins, minerals and herbals showed strong double-digit increases.

Wait Less, Get More

Who wants to run into a store for a prescription when a child is sick…or the weather is bad? Where can you turn at 1:00 in the morning when you need cough syrup? How many times have you needed to refill your prescription but haven't had time to get to the store? With nearly 1,200 drive-thru pharmacies, more than 500 24-hour stores and a chainwide Touch Tone Prefill option, these problems are solved at Walgreens.

We have districts today with well over 40 percent of refills coming in by touch tone. We want pharmacists off the phone…verifying prescriptions, counseling customers and talking to doctors. That's it. No typing, no pouring, no counting. We want them to use the knowledge they gained in pharmacy school to really take good care of our customers.

Our newest service in the pharmacy is Auto Prefill. When a patient registers for this option, Auto Prefill calculates usage and automatically issues a refill on physician-authorized prescriptions *before* the pill bottle is empty. Then, the system calls to remind the customer the prescription is ready for pick up.

Taking it to the Streets…and Mailboxes

Pharmacy service doesn't end at the stores. Our pharmacy benefits manager subsidiary – *Walgreens Health Initiatives* – packages a full complement of services to make it more convenient and economical for managed care groups to serve their members. *Walgreens Health Initiatives* offers retail and mail service prescriptions, durable medical equipment, home infusion services and pharmaceutical care centers. Using the database fed by our on-line pharmacy system, our two pharmaceutical care centers lower prescription costs and often improve care by monitoring patient compliance, disease management and generic or therapeutic drug conversion.

And while reduced costs and improved service are nice, one Cicero, Illinois, fire department lieutenant believes he owes his life to Walgreens. The firefighter had neglected to see his doctor for a refill when his prescription expired. Our pharmaceutical care center sent him a reminder letter that prompted him to make an appointment with his doctor, who admitted the man to the hospital for emergency surgery that prevented a life-threatening aneurysm.

"Home" Healthcare

Touch Tone Prefills – by phone or the Internet – make regular medication replenishment effortless for the patient and less labor-intensive for the pharmacy. The system automatically contacts the doctor if authorization is needed, then puts the prescription in the filling queue where it is prepared for pick up at the time indicated by the customer via touch tone.

TOUCH TONE PREFILLS™

Photofinishing Exposes a Growing Need

How do you attract young mothers, baby boomers and teenagers alike? By giving them the products and services they want today...and will want tomorrow. Leading the charge is photofinishing.

Finding the Best Corners
Growth opportunities abound even in Chicago, Walgreens oldest market. One hundred new store and relocation sites are approved for this area, where the company already operates more than 300 stores. This new prototype Walgreens in suburban Palatine, Illinois, is one of a record 304 stores opened nationwide in 1998.

Our photo departments are significantly different than they were three years ago. As the nation's second "baby boom" continues, Walgreens continues to evolve with the products and services that appeal to young families...and grandparents – including one-hour and overnight photofinishing, photo restoration, photo greeting cards, print-to-print machines, passport photos, CD-ROM delivery of photographic images and an assortment of novelty products.

We're the nation's second-largest photofinisher...and growing. In 1996, we made the decision to go chainwide with one-hour photo labs. Currently, more than 2,300 stores offer this service. We've also invested heavily in Kodak training for photo department technicians – finding increased employee knowledge equals increased sales.

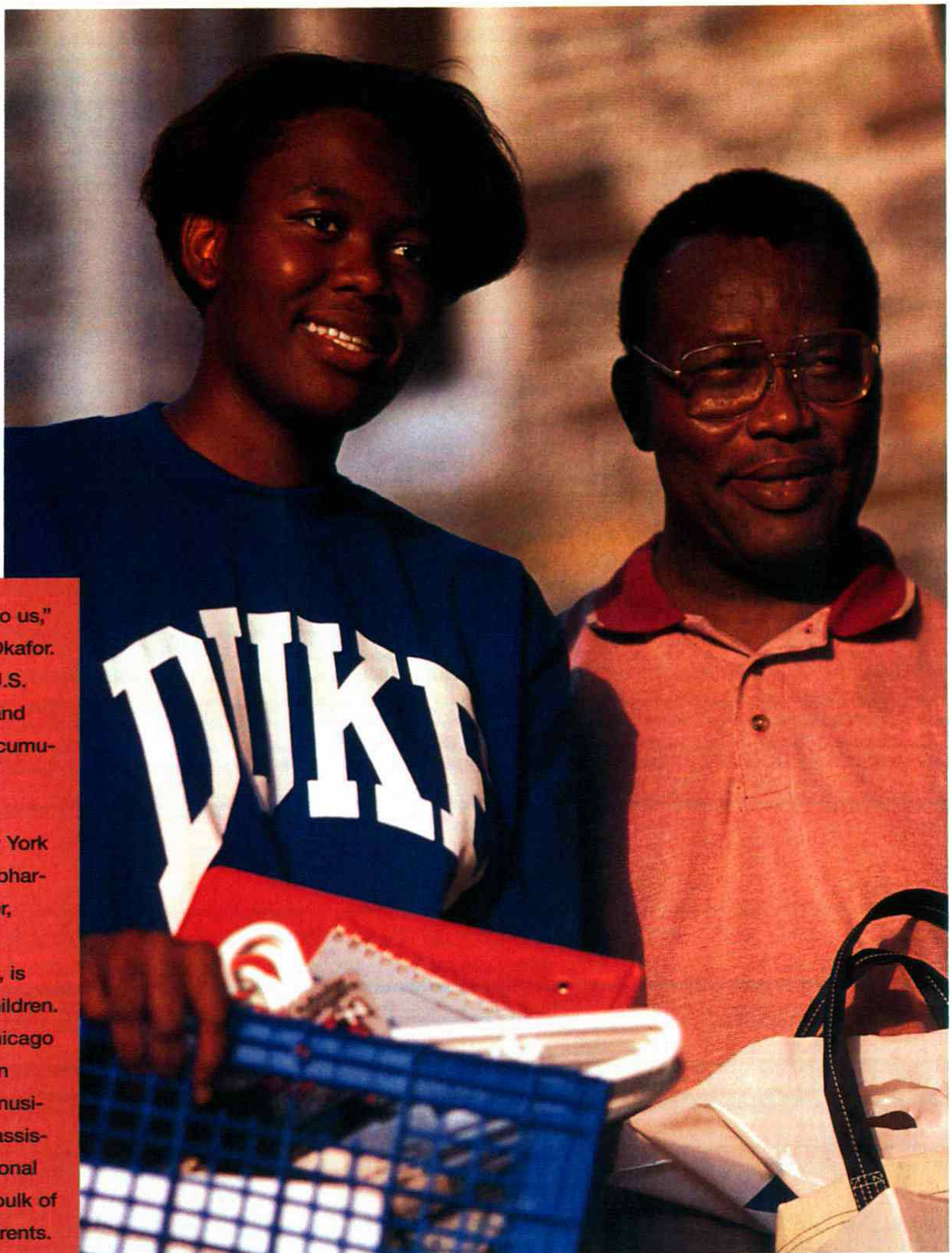
Competitive Strengths

The success of new stores and markets depends heavily on store and pharmacy management. In 1998, we invested more than $10 million in technology and personnel to train and support our store teams. Walgreens management talent is deep – our average store manager has 14 years of experience, is 38 years old and has been in his or her position more than seven years.

And our success and opportunities for career advancement draw – and *keep* – top people. Turnover at Walgreens is very low from the store manager level on up. One reason: opportunity. In fiscal 1998, we named more than 350 store managers, 15 district managers and three regional vice presidents. Those numbers will only go up.

Improving Our Formula

The days when prescriptions were considered the "cash cow" of the drugstore business – generating higher margins than the front of the store – are gone. The opposite is true today, as pharmacy profit margins are squeezed by low managed care reimbursement. At Walgreens, third party now accounts for approximately 80 percent of our prescription business, versus 30 percent a decade ago. We're maintaining prescription profitability by reducing expenses and aggressively negotiating third party contracts. We've stood firm behind the decision to reject prescription plans that do not meet our profit standards. In just the past six months, we've terminated six managed care contracts where we could not renegotiate higher rates.



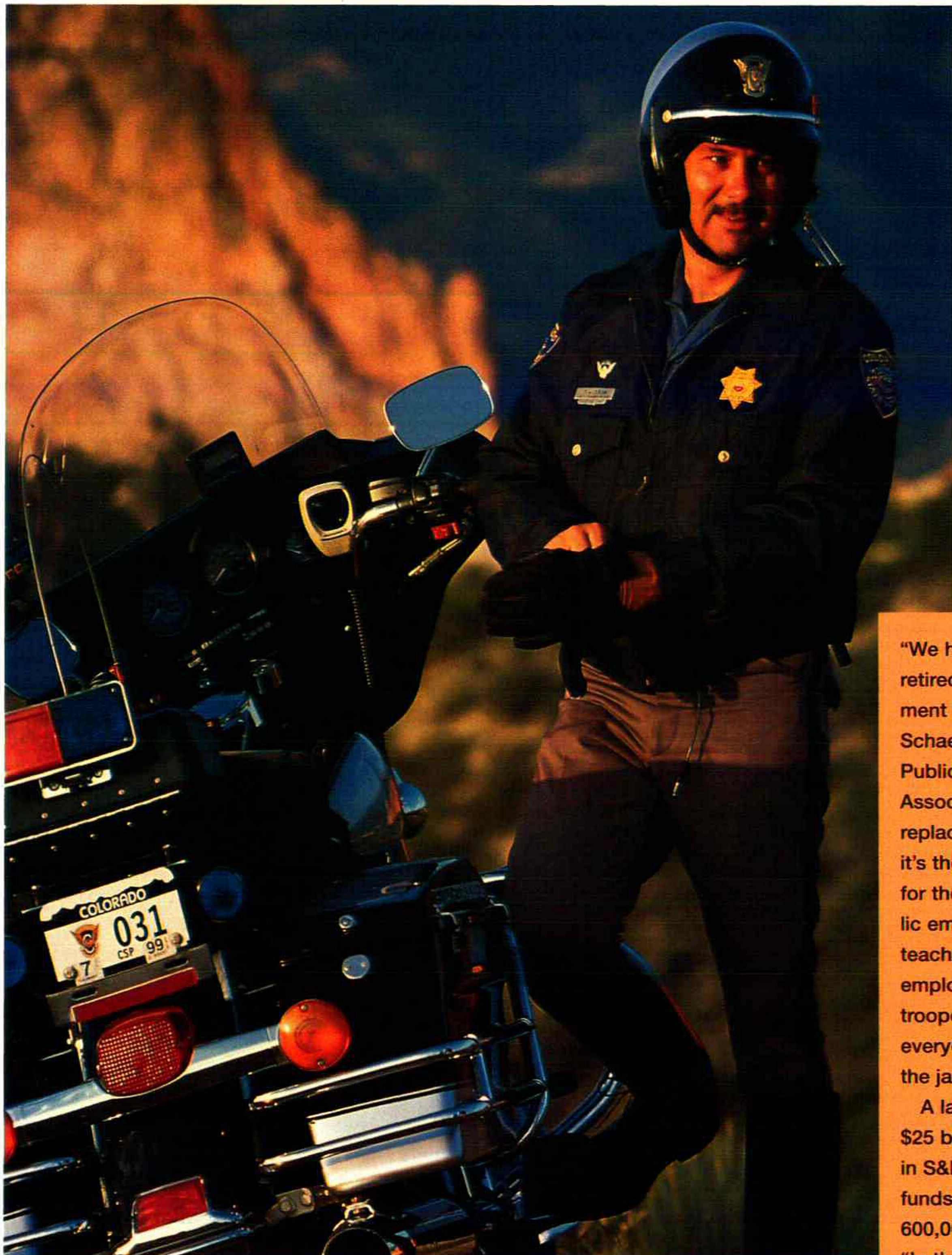
"Education is number one to us," says Chinwuba ("Chuba") Okafor. "That's why I came to the U.S. from Nigeria 25 years ago and that's a chief reason I'm accumulating Walgreen stock."

Chuba graduated from Columbia University in New York and joined Walgreens as a pharmacist in 1980. His daughter, Nkasi, a freshman at Duke University in North Carolina, is the oldest of four Okafor children. An honors graduate of a Chicago magnet school as well as an accomplished athlete and musician, Nkasi receives some assistance from a Walgreen National Merit Scholarship. But the bulk of her tuition is paid by her parents.

"I've been buying our stock through payroll deduction, Share Walgreens (a stock option plan for pharmacists and store managers), and on the open market for about 10 years," explains Chuba. "I invest because I see the continual progress this company is making, particularly in the pharmacy."

"Duke wouldn't be an option for Nkasi without my Walgreen stock."

— Chinwuba Okafor, Walgreen Pharmacist



"We have 200,000 active and retired members in our retirement trust fund," explains Don Schaefer with the Colorado Public Employee Retirement Association (PERA). "As the replacement for Social Security, it's the primary retirement vehicle for the majority of Colorado public employees, including most teachers, municipal and county employees, judges and state troopers. I like to say we cover everyone from the Governor to the janitor."

A large portion of PERA's $25 billion portfolio is invested in S&P 500 and related stock funds, which include about 600,000 shares of Walgreens. "In the past decade, the S&P has done well, gaining about 300 percent," says Schaefer. "But Walgreens has blown that away with a gain of nearly 1,000 percent. Just thinking of my own retirement some day, I'm awfully happy we have WAG in our fund."

"My retirement plan owns almost 600,000 shares of Walgreen stock."

— Dave Dolan, Colorado State Trooper

Intercom Plus, our proprietary, second generation pharmacy system, helps in two ways: It drives down costs and improves sales through exceptional customer service. Pharmacists – both new and long-term – find it the most efficient system they've used. In 1999, we'll spend more than $4 million on hardware improvements for Intercom Plus. And we have 70 staff members assigned just to the development and testing of software enhancements for this system.

Healthcare Remains Our Strongest Commitment

If $4 million seems like a lot for a *new* system's enhancement, it's because we believe it's critical to our future. Pharmacy sales were up 20.6 percent in 1998, with a 15.6 percent increase for comparable stores (those open a year or more). What's driving business? Convenient locations, higher use of pharmaceuticals by members of managed care plans, development of new drugs, good patient service and, of course, our aging population.

Current statistics shout, "Baby boomers turn 50 at the rate of one every eight seconds!" The 55-plus age group, which represents 33 percent of the U.S. adult population, is an impressive group in terms of absolute size and economic power. Controlling 77 percent of the nation's personal wealth and 40 percent of the discretionary income, boomers rely heavily on prescription drugs. The average 50 year old takes eight prescriptions a year...that jumps to 12 when you hit 60. And by 2010, there will be 100 million people in this country 50 or older.

Back to the Basics

Let's face it – "One size fits all" is a myth. What works in Houston doesn't necessarily "play" in Minneapolis. Keeping our stores relevant to their communities – by offering the right products in the right stores – is critical. There are no more "average" stores.

Through a new system called Basic Department Management (BDM), we will "marry" sales data and store demographics to create departments that cater to local needs and wants.

And what could be more "basic" to a retailer than inventory management? Our proprietary Strategic Inventory Management System (SIMS) has really paid off.

SIMS continues to accrue benefits as store managers become more proficient with the system. Gone are the days when we had to guess how many bottles of aspirin we should stock in an individual store. Going fast are customer complaints due

Techs Earn Certification
Well-trained pharmacy technicians like Celeste Burgess (above) are pivotal to both patient service and the efficient operation of Walgreens Intercom Plus workflow system. Approximately 2,000 technicians passed a national certification exam during 1998, enhancing their pay and pharmacy knowledge.

How Close Can We Get... to Ourselves?!
Within a one-mile radius in downtown San Francisco, Walgreens operates five powerful stores – representing close to $50 million in annual sales volume. Four additional stores will open in this densely-populated area by 2000. "In major cities across America, we've surprised ourselves with how closely together we can locate stores...without sacrificing profitability," says CEO Dan Jorndt.

to stores being out of stock on advertised merchandise. Our distribution centers and suppliers are wired into each store's transaction history, making inventories more balanced, reducing operating expenses and improving the company's profitability. To date, SIMS has reduced our inventory investment by over $430 million, freeing dollars to finance growth.

Making Our Presence Known

Recent surveys show growing name recognition for Walgreens – even in markets we've never served. We'll spend heavily in 1999 to build our name through television and print advertising – while developing cleaner and more efficient weekly ad circulars.

Our Rebate Club Program – another image builder – supports our loyal customer base through mail order refunds on monthly store selections. In 1999, the program will return more than $15 million to consumers.

We donated over $4.5 million to charities over the last year. Among those receiving major support are four organizations with which we're sponsoring in-store funding promotions: the Salvation Army, American Heart Association, American Cancer Society (for breast cancer) and Juvenile Diabetes Foundation. Walgreens has also continued its commitment to One-on-One, a tutoring program for inner city children which is now in place in five markets.

Underlying Strengths

The bottom line for any business is profitability.

We're investing in a store a day, new markets, high-tech distribution centers and store systems...and earnings have accelerated. We're writing off store closings as we go along – $125 million in the past five years...and earnings have accelerated. We're buying the best corners...and we have virtually no debt. But most important, we are generating the cash to fund our company's future.

Why have investors rewarded Walgreens with a higher premium than others in the industry receive? "Three reasons," answers Dan Jorndt. "Our results are consistent, we're in a business with demographics behind it and we've built strong teams at all levels.

"We're committed to steady, long-term *profitable* growth. The bit is in our teeth and we're running with it."

In the early years of the company, Charles R. Walgreen Sr. gave every employee the same advice: "Buy Walgreen stock." He'd be gratified to know that more than 25,000 current employees participate in company stock plans.

One is Rosalinda Ibarra, a 26-year-old mother of two and 10-year Walgreen employee in Joliet, Illinois. Last year the cosmetician bought 100 shares. "My husband, Hector, and I decided we should plan for the future," she says. "Our first priority is a good education for our boys – now seven and three years old. We've already made the decision to send them to a private school, which we think is more academically challenging, and we want them to have the opportunity to go to college.

"With this investment and my membership in Walgreens Profit Sharing Plan, Hector and I are also looking ahead to our retirement some day. My stock loan will be paid off in four years... that's when I'll buy *another* 100 shares."

"Owning stock makes how I run my department more important."

— Rosalinda Ibarra, Walgreen Cosmetician

Eleven-Year Summary of Selected Consolidated Financial Data

Walgreen Co. and Subsidiaries (Dollars in Millions, except per share data)

	Fiscal Year	1998	1997	1996
Net Sales		$15,307	$13,363	$11,778
Costs and Deductions	Cost of sales	11,140	9,682	8,515
	Selling, occupancy and administration	3,332	2,973	2,659
	Other (income) expense *(1)*	(42)	(4)	(3)
	Total Costs and Deductions	14,430	12,651	11,171
Earnings	Earnings before income tax provision and cumulative effect of accounting changes	877	712	607
	Income tax provision	340	276	235
	Earnings before cumulative effect of accounting changes	537	436	372
	Cumulative effect of accounting changes *(2)*	(26)	–	–
	Net Earnings	$ 511	$ 436	$ 372
Per Common Share *(3)*	Earnings before cumulative effect of accounting changes			
	Basic	$ 1.08	$ .89	$ .76
	Diluted	1.07	.88	.75
	Net earnings			
	Basic	1.03	.89	.76
	Diluted	1.02	.88	.75
	Dividends declared	.25	.24	.22
	Book value	5.72	4.81	4.15
Non-Current Liabilities	Long-term debt	$ 14	$ 3	$ 4
	Deferred income taxes	89	113	145
	Other non-current liabilities	370	279	260
Assets and Equity	Total assets	$ 4,902	$ 4,207	$ 3,634
	Shareholders' equity	$ 2,849	$ 2,373	$ 2,043
	Return on average shareholders' equity	19.6%	19.8%	19.4%

(1) Fiscal 1998 includes a pre-tax gain of $37 million ($23 million after-tax or $.05 per share) from the sale of the company's long-term care pharmacy business.

(2) Fiscal 1998 includes the $26 million ($.05 per share) charge from the cumulative effect of accounting change for system development costs. Fiscal 1993 includes the $24 million ($.05 per share) costs from the cumulative effect of accounting changes for postretirement benefits and income taxes.

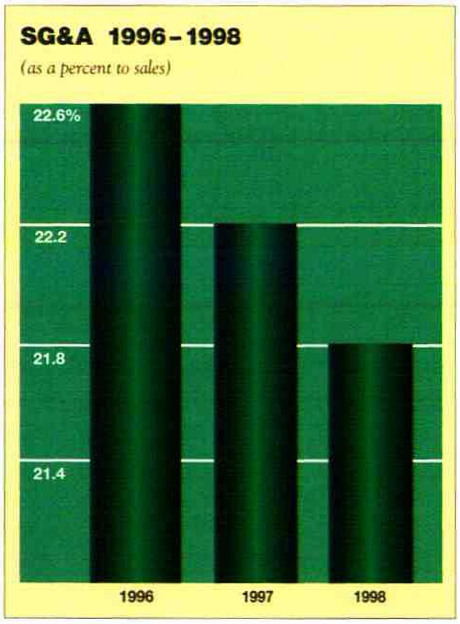
(3) Per share data have been adjusted for two-for-one stock splits in 1997, 1995 and 1991.

1995	1994	1993	1992	1991	1990	1989	1988
$10,395	$9,235	$8,295	$7,475	$6,733	$6,047	$5,380	$4,884
7,482	6,615	5,959	5,378	4,829	4,356	3,849	3,469
2,393	2,165	1,930	1,739	1,583	1,407	1,278	1,190
(4)	(3)	7	5	9	3	9	16
9,871	8,777	7,896	7,122	6,421	5,766	5,136	4,675
524	458	399	353	312	281	244	209
203	176	154	132	117	106	90	80
321	282	245	221	195	175	154	129
–	–	(24)	–	–	–	–	–
$ 321	$ 282	$ 221	$ 221	$ 195	$ 175	$ 154	$ 129
$ .65	$ .57	$ .50	$ .45	$ .40	$ .35	$ .31	$ .26
.65	.57	.50	.45	.39	.35	.31	.26
.65	.57	.45	.45	.40	.35	.31	.26
.65	.57	.45	.45	.39	.35	.31	.26
.20	.17	.15	.13	.12	.10	.09	.08
3.64	3.20	2.80	2.51	2.20	1.92	1.67	1.45
$ 2	$ 2	$ 6	$ 19	$ 123	$ 147	$ 150	$ 172
142	138	144	172	155	139	118	106
238	214	176	104	85	77	69	55
$ 3,253	$2,873	$2,506	$2,347	$2,074	$1,896	$1,666	$1,501
$ 1,793	$1,574	$1,379	$1,233	$1,081	$ 947	$ 823	$ 713
19.1%	19.1%	18.8%	19.1%	19.2%	19.7%	20.1%	19.3%

Management's Discussion and Analysis of Results of Operations and Financial Condition

Results of Operations

Fiscal 1998 was the twenty-fourth consecutive year of record sales and earnings. Net earnings were $511 million or $1.02 per share (diluted), an increase of 17.2% from last year's earnings of $436 million or $.88 per share. Included in this year's results was a $26 million after-tax charge ($.05 per share) related to an accounting change and an offsetting $.05 per share gain on the sale of the company's long-term care pharmacy business which was recorded in the fiscal fourth quarter. The accounting change involved expensing the cumulative cost of business process reengineering activities that had been capitalized as part of system development projects. Operating earnings increases resulted from higher sales and improved expense ratios.



Total net sales increased by 14.5% to $15.3 billion in fiscal 1998 compared to increases of 13.5% in 1997 and 13.3% in 1996. Drugstore sales increases resulted from sales gains in existing stores and added sales from new stores, each of which include an indeterminate amount of market-driven price changes. Comparable drugstore (those open at least one year) sales were up 9.4% in 1998, 8.1% in 1997, and 8.5% in 1996. New store openings accounted for 10.4% of the sales gains in 1998, 8.6% in 1997, and 7.6% in 1996. The company operated 2,549 drugstores as of August 31, 1998, compared to 2,358 a year earlier.

Prescription sales increased 20.6% in 1998, 18.1% in 1997, and 18.0% in 1996. Comparable drugstores were up 15.6% in 1998 and 13.0% in 1997 and 1996. Prescription sales were 49.6% of total sales for fiscal 1998 compared to 47.1% in 1997 and 45.2% in 1996. Pharmacy sales trends are expected to continue primarily because of expansion into new markets, increased penetration in existing markets, and demographic changes such as the aging population.

Gross margins as a percent of sales decreased to 27.2% of sales from 27.5% last year and 27.7% in fiscal 1996. The two major factors contributing to the decrease were the decline in pharmacy gross profit margins and the LIFO provision.

Third party retail and mail order sales, which have lower gross margin rates compared to the rest of the store, continue to become a larger portion of pharmacy sales. The margins are under continued pressure from the reimbursement rates demanded by managed care organizations. The company is responding to these gross margin pressures by evaluating contracts with the organizations on a case by case basis to insure a reasonable return to shareholders. This may result in sacrificing sales volume to insure that minimum gross margin standards are met. Improved gross margins in the rest of the store helped offset the decline.

The company uses the last-in, first-out (LIFO) method of inventory valuation. The effective LIFO inflation rates were 2.15% in 1998, .82% in 1997, and .68% in 1996, which resulted in charges to cost of sales of $47 million in 1998, $16 million in 1997, and $13 million in 1996. Inflation on prescription inventory was 5.5% in 1998, 1.9% in 1997, and 2.3% in 1996.

Selling, occupancy and administration expenses were 21.8% of sales in fiscal 1998, 22.2% of sales in fiscal 1997, and 22.6% of sales in fiscal 1996. The fiscal 1998 decrease, as a percent to sales, was caused by lower payroll, advertising and headquarters expenses. The fiscal 1997 decrease, as a percent to sales, was caused principally by lower advertising expenses. The growth in mail order pharmacy, which has a lower expense ratio, has also been contributing to the decreases.

Interest income was relatively constant over the three year periods. Average net investment levels were approximately $72 million in 1998, $79 million in 1997, and $76 million in 1996.

The fiscal 1998, 1997 and 1996 effective tax rates were 38.75%.

Financial Condition

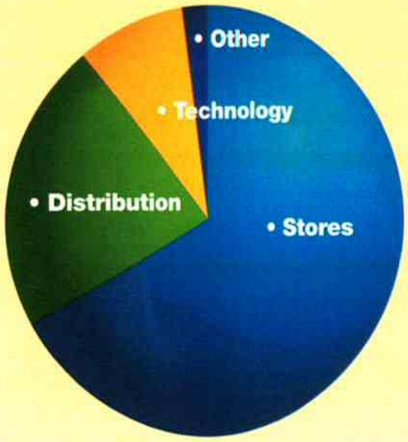
Cash and cash equivalents were $144 million at August 31, 1998, compared to $73 million at August 31, 1997. Short-term investment objectives are to maximize yields while minimizing risk and maintaining liquidity. To attain these objectives, investment limits are placed on the amount, type and issuer of securities.

Net cash provided by operating activities for fiscal 1998 was $571 million compared to $650 million a year ago. The company's profitability is the principal source for providing funds for expansion and remodeling programs, dividends to shareholders and funding for various technological improvements.

Net cash used for investing activities was $502 million in fiscal 1998 and $486 million in 1997. Additions to property and equipment were $641 million compared to $485 million last year. During the year, 304 new or relocated drugstores were opened. This compares to 251 new or relocated drugstores opened in the same period last year. New stores are owned or leased. There were 136 owned locations opened during the year or under construction at August 31, 1998, versus 110 for the same period last year. The surrender of certain corporate-owned life insurance policies resulted in net proceeds of $58 million. Property and equipment dispositions of $72 million in fiscal 1998 includes the proceeds from the sale of the company's 14 long-term care pharmacy facilities.

Capital Expenditures — FY 1999

More than $750 million to be spent



Capital expenditures for fiscal 1999 are estimated to be more than $750 million. The company expects to open at least 365 new stores in fiscal 1999. The company is continuing to relocate stores to more convenient and profitable freestanding locations. Expectations are that 3,000 drugstores will be operating in the year 2000, with a goal of 6,000 by 2010. This may necessitate future long-term borrowings.

Net cash provided by financing activities was $2 million compared to $100 million used a year ago. The company issued 4.5 million shares of authorized but previously unissued shares to satisfy various stock option and purchase plan requirements. This avoided purchasing shares on the open market which would have resulted in cash outflows of approximately $111 million. At August 31, 1998, the company had $162 million in unused bank lines of credit and $100 million of unissued authorized debt securities, previously filed with the Securities and Exchange Commission.

The company has been addressing computer software and hardware modifications or replacements to enable transactions to process properly in the year 2000. Included in the hardware review is an examination of critical non-IT systems, including embedded technology at company facilities. Left uncorrected, the "year 2000 problem" could result in business interruptions. However, based on currently available information, all necessary changes are expected to occur in a timely manner. As part of the project, a detailed work plan was developed to identify key processes such as point-of-sale, pharmacy and inventory control. At August 31, 1998, it is estimated that 70% of the work plan activities have been completed and approximately 50% of the costs have been incurred. The total cost of these changes is expected to be approximately $10 million which is based on management's best estimates and subject to change as additional information becomes available.

Although the company is working with suppliers and customers regarding this issue, no assurance can be given with respect to potential adverse effects on the company of any failure by other parties to achieve year 2000 compliance. The company is developing contingency plans which identify "risk points" within key business processes and is developing alternative solutions if a failure occurs at a risk point. Any unexpected problems which occur concerning this issue will be attacked vigorously and, if necessary, workarounds will be pursued.

In March 1998, Statement of Position 98-1 "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" was issued. This pronouncement, which is effective by the company's fiscal year 2000, provides guidance on the capitalization of costs related to internal use software. The pronouncement is not expected to materially impact the company's consolidated financial position or results of operations.

In April 1998, Statement of Position 98-5 "Reporting on the Costs of Start-up Activities" was issued. This pronouncement requires that costs related to start-up activities be expensed as incurred. The company's policies are in compliance with this pronouncement, and therefore, no adjustments are necessary.

Cautionary Note Regarding Forward-Looking Statements

Certain statements and projections of future results made in this report constitute forward-looking information that is based on current market, competitive and regulatory expectations and involves risks and uncertainties. Please see Walgreen Co.'s Form 10-K for the period ended August 31, 1998, for a discussion of certain important factors as they relate to forward-looking statements. Actual results could differ materially.

Consolidated Statements of Earnings and Shareholders' Equity

Walgreen Co. and Subsidiaries for the years ended August 31, 1998, 1997 and 1996 (Dollars in Millions, except per share data)

	Earnings	**1998**	**1997**	**1996**
Net Sales		$15,307	$13,363	$11,778
Costs and Deductions	Cost of sales	11,140	9,682	8,515
	Selling, occupancy and administration	3,332	2,973	2,659
		14,472	12,655	11,174
Other (Income) Expense	Interest income	(6)	(6)	(5)
	Interest expense	1	2	2
	Gain on sale of long-term care pharmacies	(37)	–	–
		(42)	(4)	(3)
Earnings	Earnings before income tax provision and cumulative effect of accounting change	877	712	607
	Income tax provision	340	276	235
	Earnings before cumulative effect of accounting change	537	436	372
	Cumulative effect of accounting change for system development costs	(26)	–	–
	Net earnings	$ 511	$ 436	$ 372
Net Earnings Per Common Share				
Basic	Earnings before cumulative effect of accounting change	$ 1.08	$ .89	$ .76
	Cumulative effect of accounting change for system development costs	(.05)	–	–
	Net earnings	$ 1.03	$ .89	$ .76
Diluted	Earnings before cumulative effect of accounting change	$ 1.07	$ .88	$ .75
	Cumulative effect of accounting change for system development costs	(.05)	–	–
	Net earnings	$ 1.02	$ .88	$ .75
	Average shares outstanding	496,084,620	492,440,738	492,282,144
	Dilutive effect of stock options	6,761,836	5,893,807	4,589,866
	Average shares outstanding assuming dilution	502,846,456	498,334,545	496,872,010

Shareholders' Equity	**Common Stock** Shares	**Common Stock** Amount	**Paid-in Capital**	**Retained Earnings**
Balance, August 31, 1995	492,282,144	$77	$ –	$1,716
Net earnings	–	–	–	372
Cash dividends declared ($.22 per share)	–	–	–	(109)
Employee stock purchase and option plans	–	–	–	(13)
Balance, August 31, 1996	492,282,144	77	–	1,966
Net earnings	–	–	–	436
Cash dividends declared ($.24 per share)	–	–	–	(118)
Employee stock purchase and option plans	1,507,822	–	30	(18)
Balance, August 31, 1997	493,789,966	77	30	2,266
Net earnings	–	–	–	511
Cash dividends declared ($.25 per share)	–	–	–	(124)
Employee stock purchase and option plans	4,453,556	1	88	–
Balance, August 31, 1998	498,243,522	$78	$118	$2,653

The accompanying Statement of Major Accounting Policies and the Notes to Consolidated Financial Statements are integral parts of these statements.

Consolidated Balance Sheets

Walgreen Co. and Subsidiaries at August 31, 1998 and 1997 (Dollars in Millions)

	Assets	1998	1997
Current Assets	Cash and cash equivalents	$ 144	$ 73
	Accounts receivable, net	373	376
	Inventories	2,027	1,733
	Other current assets	79	144
	Total Current Assets	2,623	2,326
Non-Current Assets	Property and equipment, at cost, less accumulated depreciation and amortization	2,144	1,754
	Other non-current assets	135	127
	Total Assets	$4,902	$4,207

	Liabilities and Shareholders' Equity	1998	1997
Current Liabilities	Trade accounts payable	$ 907	$ 813
	Accrued expenses and other liabilities	618	554
	Income taxes	55	72
	Total Current Liabilities	1,580	1,439
Non-Current Liabilities	Deferred income taxes	89	113
	Other non-current liabilities	384	282
	Total Non-Current Liabilities	473	395
Shareholders' Equity	Preferred stock, $.125 par value; authorized 16 million shares; none issued	–	–
	Common stock, $.15625 par value; authorized 1.6 billion shares; issued and outstanding 498,243,522 in 1998 and 493,789,966 in 1997	78	77
	Paid-in capital	118	30
	Retained earnings	2,653	2,266
	Total Shareholders' Equity	2,849	2,373
	Total Liabilities and Shareholders' Equity	$4,902	$4,207

The accompanying Statement of Major Accounting Policies and the Notes to Consolidated Financial Statements are integral parts of these statements.

Consolidated Statements of Cash Flows

Walgreen Co. and Subsidiaries for the years ended August 31, 1998, 1997 and 1996 (In Millions)

	Fiscal Year	1998	1997	1996
Cash Flows from Operating Activities	Net earnings	$ 511	$ 436	$ 372
	Adjustments to reconcile net earnings to net cash provided by operating activities –			
	Cumulative effect of accounting change for system development costs	26	–	–
	Depreciation and amortization	189	164	147
	Gain on sale of long-term care pharmacies	(37)	–	–
	Deferred income taxes	(1)	8	3
	Other	29	8	5
	Changes in operating assets and liabilities –			
	Inventories	(299)	(101)	(178)
	Accrued expenses and other liabilities	99	73	42
	Trade accounts payable	94	121	85
	Accounts receivable, net	(20)	(74)	(60)
	Income taxes	(17)	12	(9)
	Other	(3)	3	4
	Net cash provided by operating activities	571	650	411
Cash Flows from Investing Activities	Additions to property and equipment	(641)	(485)	(364)
	Disposition of property and equipment	72	15	18
	Proceeds from the surrender of corporate-owned life insurance	58	–	–
	Net borrowing from (investment in) corporate-owned life insurance	9	(16)	47
	Net cash used for investing activities	(502)	(486)	(299)
Cash Flows from Financing Activities	Cash dividends paid	(123)	(116)	(105)
	Proceeds from (purchases for) employee stock plans	105	17	(20)
	Other	20	(1)	–
	Net cash provided by (used for) financing activities	2	(100)	(125)
Changes in Cash and Cash Equivalents	Net increase (decrease) in cash and cash equivalents	71	64	(13)
	Cash and cash equivalents at beginning of year	73	9	22
	Cash and cash equivalents at end of year	$ 144	$ 73	$ 9

The accompanying Statement of Major Accounting Policies and the Notes to Consolidated Financial Statements are integral parts of these statements.

Statement of Major Accounting Policies

Description of Business

The company is principally in the retail drugstore business. Stores are located in 35 states and Puerto Rico. At August 31, 1998, there were 2,547 retail drugstores and two mail service facilities. Prescription sales were 49.6% of total sales for fiscal 1998 compared to 47.1% in 1997 and 45.2% in 1996.

Accounting Change

In accordance with the EITF (Emerging Issues Task Force) consensus reached on November 20, 1997, the company was required to change its accounting for business process reengineering costs. EITF 97-13 "Accounting for Costs Incurred in Connection with a Consulting Contract or an Internal Project that Combines Business Process Reengineering and Information Technology Transformation," requires that the cost of business process reengineering activities that are part of a project to acquire, develop or implement internal use software, whether done internally or by third parties, be expensed as incurred. Previously, the company capitalized these costs as systems development costs. The change, effective as of September 1, 1997, resulted in a cumulative pre-tax charge of $43 million, or $.05 per share, recorded in the quarter ended November 30, 1997. No restatement of prior years' financial statements was required. Except for the cumulative effect of the accounting change, the effect of this change on the current year and prior years is not material.

Basis of Presentation

The consolidated statements include the accounts of the company and its subsidiaries. All significant intercompany transactions have been eliminated. The financial statements are prepared in accordance with generally accepted accounting principles and include amounts based on management's prudent judgments and estimates. Actual results may differ from these estimates.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and all highly liquid investments with an original maturity of three months or less. The company's cash management policy provides for the bank disbursement accounts to be reimbursed on a daily basis. Checks issued but not presented to the banks for payment of $148 million and $145 million at August 31, 1998 and 1997, respectively, are included in cash and cash equivalents as reductions of other cash balances.

Financial Instruments

The company had approximately $53 million and $38 million of outstanding letters of credit at August 31, 1998 and 1997, respectively, which guaranteed foreign trade purchases. Additional outstanding letters of credit of $41 million and $59 million at August 31, 1998 and 1997, respectively, guaranteed payments of casualty claims. The casualty claim letters of credit are annually renewable and will remain in place until the casualty claims are paid in full. The company pays a nominal facility fee to the financing bank to keep this line of credit facility active. The company also had purchase commitments of approximately $242 million and $209 million at August 31, 1998 and 1997, respectively, related to the purchase of store locations. There were no investments in derivative financial instruments during fiscal 1998 and 1997.

Inventories

Inventories are valued on a lower of last-in, first-out (LIFO) cost or market basis. At August 31, 1998 and 1997, inventories would have been greater by $491 million and $444 million, respectively, if they had been valued on a lower of first-in, first-out (FIFO) cost or market basis. Cost of sales is primarily derived from an estimate based upon point-of-sale scanning information and adjusted based on periodic inventories.

Property and Equipment

Depreciation is provided on a straight-line basis over the estimated useful lives of owned assets. Leasehold improvements and leased properties under capital leases are amortized over the estimated physical life of the property or over the term of the lease, whichever is shorter. Estimated useful lives range from 12½ to 39 years for land improvements, buildings and building improvements and 5 to 12½ years for equipment. Major repairs which extend the useful life of an asset are capitalized in the property and equipment accounts. Routine maintenance and repairs are charged against earnings. The composite method of depreciation is used for equipment; therefore, gains and losses on retirement or other disposition of such assets are included in earnings only when an operating location is closed, completely remodeled or impaired resulting in the carrying amount not being recoverable. Undiscounted future cash flows are used to determine if impairment has occurred. Impaired amounts are determined by comparing the present value of estimated future cash flows to the carrying value of their assets. Fully depreciated property and equipment are removed from the cost and related accumulated depreciation and amortization accounts.

Property and equipment consists of *(In Millions)*:

	1998	1997
Land and land improvements		
Owned stores	$ 360	$ 217
Distribution centers	21	19
Other locations	9	9
Buildings and building improvements		
Leased stores (leasehold improvements only)	404	337
Owned stores	346	261
Distribution centers	159	117
Other locations	45	41
Equipment		
Stores	908	783
Distribution centers	187	162
Other locations	384	383
Capitalized system development costs	123	154
Capital lease properties	15	19
	2,961	2,502
Less: accumulated depreciation and amortization	817	748
	$2,144	$1,754

The company capitalizes costs which primarily relate to the application development stage of significant internally developed software. These costs principally relate to Intercom Plus, a pharmacy computer and workflow system, and SIMS inventory

Statement of Major Accounting Policies *(Continued)*

management system. These costs are amortized over a five-year period as phases of these systems are implemented. Unamortized costs as of August 31, 1998 and 1997, were $53 million and $97 million, respectively. Amortization of these costs were $13 million in 1998, $14 million in 1997 and $11 million in 1996.

Income Taxes

The company provides for federal and state income taxes on items included in the Consolidated Statements of Earnings regardless of the period when such taxes are payable. Deferred taxes are recognized for temporary differences between financial and income tax reporting based on enacted tax laws and rates.

Retirement Benefits

The principal retirement plan for employees is the Walgreen Profit-Sharing Retirement Trust, to which both the company and the employees contribute. The company's contribution, which is determined annually at the discretion of the Board of Directors, has historically related to pre-tax income. The profit-sharing provision was $79 million in 1998, $59 million in 1997 and $50 million in 1996.

The company provides certain health and life insurance benefits for retired employees who meet eligibility requirements, including age and years of service. The costs of these benefits are accrued over the period earned. The company's postretirement benefit plans currently are not funded.

Insurance

The company obtains insurance coverage for catastrophic exposures as well as those risks required to be insured by law. It is the company's policy to retain a significant portion of certain losses related to worker's compensation, property losses, business interruptions relating from such losses and comprehensive general, pharmacist and vehicle liability. Provisions for these losses are recorded based upon the company's estimates for claims incurred. Such estimates utilize certain assumptions followed in the insurance industry.

Net Earnings Per Common Share

Financial Accounting Standards Board (FASB) Statement No. 128 "Earnings Per Share" was adopted by the company in the quarter ended February 28, 1998. "Basic earnings per share" and "diluted earnings per share," as defined by the bulletin, replaced "primary earnings per share" and "fully diluted earnings per share." Earnings per share have been restated for prior periods.

Pre-Opening Expenses

Non-capital expenditures incurred prior to the opening of a new or remodeled store are charged against earnings when they are incurred.

Advertising Costs

Advertising costs are expensed as incurred, and were $60 million in 1998, $68 million in 1997 and $82 million in 1996.

Notes to Consolidated Financial Statements

Interest Expense

The company capitalized $2 million of interest expense as part of significant construction projects during fiscal 1998 and less than $1 million during fiscal 1997 and 1996. Interest paid, net of amounts capitalized, was $1 million in 1998, $2 million in 1997 and $3 million in 1996.

Gain on Sale of Long-Term Care Pharmacies

In June 1998, the company completed the sale of its long-term care pharmacy business for a pre-tax gain of $37 million ($23 million after-tax or $.05 per share). The 14 units generated revenues of approximately $40 million a year.

Leases

Although some locations are owned, the company generally operates in leased premises. Original non-cancelable lease terms typically are 20 years and may contain escalation clauses, along with options that permit renewals for additional periods. The total amount of the minimum rent is expensed on a straight-line basis over the term of the lease. In addition to minimum fixed rentals, most leases provide for contingent rentals based upon sales.

Minimum rental commitments at August 31, 1998, under all leases having an initial or remaining non-cancelable term of more than one year are shown below *(In Millions)*:

Year	
1999	$ 441
2000	473
2001	460
2002	446
2003	432
Later	4,772
Total minimum lease payments	$7,024

The above minimum lease payments include minimum rental commitments related to capital leases amounting to $8 million at August 31, 1998. The present value of net minimum capital lease payments, due after 1999, are reflected in the accompanying Consolidated Balance Sheets as part of other non-current liabilities. Total minimum lease payments have not been reduced by minimum sublease rentals of approximately $21 million on leases due in the future under non-cancelable subleases.

Rental expense was as follows *(In Millions)*:

	1998	1997	1996
Minimum rentals	$406	$357	$318
Contingent rentals	35	35	36
Less: Sublease rental income	(4)	(3)	(3)
	$437	$389	$351

Income Taxes

The provision for income taxes consists of the following *(In Millions)*:

	1998	1997	1996
Current provision – Federal	$290	$228	$196
– State	51	40	36
	341	268	232
Deferred provision – Federal	(2)	7	3
– State	1	1	–
	(1)	8	3
	$340	$276	$235

The components of the deferred provision were *(In Millions)*:

	1998	1997	1996
Accelerated depreciation	$ 22	$ 9	$ 12
Employee benefit plans	(10)	(14)	(15)
Inventory	(3)	22	1
Other	(10)	(9)	5
	$ (1)	$ 8	$ 3

The deferred tax assets and liabilities included in the Consolidated Balance Sheets consist of the following *(In Millions)*:

	1998	1997
Deferred tax assets –		
Employee benefit plans	$105	$ 95
Insurance	39	41
Accrued rent	41	35
Inventory	16	15
Other	44	28
	245	214
Deferred tax liabilities –		
Accelerated depreciation	231	225
Inventory	53	55
Other	19	9
	303	289
Net deferred tax liabilities	$ 58	$ 75

Income taxes paid were $333 million, $243 million and $241 million during the fiscal years ended August 31, 1998, 1997 and 1996, respectively. The difference between the statutory income tax rate and the effective tax rate is principally due to state income tax provisions.

Short-Term Borrowings

The company obtained funds through the placement of commercial paper, as follows *(Dollars in Millions)*:

	1998	1997	1996
Average outstanding during year	$ 18	$ 8	$ 19
Largest month-end balance	50	42	77
	(Oct)	(Sept)	(Nov)
Weighted average interest rate	5.7%	5.4%	5.8%

There were no short-term borrowings at August 31, 1998 or August 31, 1997. At August 31, 1998 the company had approximately $162 million of available bank lines of credit. The credit lines are renewable annually at various dates and provide for loans of varying maturities at the prime rate. There are no compensating balance arrangements.

Contingencies

The company is involved in various legal proceedings incidental to the normal course of business. Company management is of the opinion, based upon the advice of General Counsel, that although the outcome of such litigation cannot be forecast with certainty, the final disposition should not have a material adverse effect on the company's consolidated financial position or results of operations.

Capital Stock

The company's common stock is subject to a Rights Agreement under which each share has attached to it a Right to purchase one one-hundredth of a share of a new series of Preferred Stock at a price of $75.00 per Right. In the event an entity acquires or attempts to acquire 15% or more of the then outstanding shares, each Right, except those of an acquiring entity, would entitle the holder to purchase a number of shares of common stock pursuant to a formula contained in the Agreement. These non-voting Rights will expire on August 21, 2006, but may be redeemed at a price of $.005 per Right at any time prior to a public announcement that the above event has occurred.

As of August 31, 1998, 57,364,515 shares of common stock were reserved for future stock issuances under the company's employee stock purchase, option and award plans. Preferred stock of 4,982,435 shares have been reserved for issuance upon the exercise of Preferred Share Purchase Rights.

Stock Compensation Plans

The Walgreen Co. Executive Stock Option Plan provides for the granting to key employees of options to purchase company common stock over a 10-year period, at a price not less than the fair market value on the date of the grant. Under this Plan, options may be granted until October 9, 2006, for an aggregate of 19,200,000 shares of common stock of the company. The options granted during fiscal 1998, 1997 and 1996 have a minimum three-year holding period.

The Walgreen Co. Stock Purchase/Option Plan (Share Walgreens) provides for the granting of options to purchase company common stock over a period of 10 years to eligible employees upon the purchase of company shares subject to certain restrictions. Under the terms of the Plan, the option price cannot be less than 85% of the fair market value at the date of grant. Compensation expense related to the Plan was less than $1 million in fiscal 1998, 1997 and 1996. Options may be granted under this Plan until September 30, 2002, for an aggregate of 20,000,000 shares of common stock of the company. The options granted during fiscal 1998, 1997 and 1996 have a two-year holding period.

A summary of information relative to the company's stock option plans follows:

	Options Outstanding		Options Exercisable	
	Shares	*Weighted-Average Exercise Price*	*Shares*	*Weighted-Average Exercise Price*
August 31, 1995	14,955,620	$ 8.36		
Granted	299,136	12.95		
Exercised	(758,300)	7.69		
Canceled/Forfeited	(42,848)	9.63		
August 31, 1996	14,453,608	$ 8.49	10,741,596	$8.04
Granted	4,706,936	17.97		
Exercised	(2,233,992)	6.26		
Canceled/Forfeited	(143,636)	13.00		
August 31, 1997	16,782,916	$11.40	9,874,942	$8.65
Granted	986,081	28.04		
Exercised	(2,833,841)	7.55		
Canceled/Forfeited	(132,178)	17.08		
August 31, 1998	14,802,978	$13.18	9,127,669	$9.24

The following table summarizes information concerning currently outstanding and exercisable options:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	*Number Outstanding at 8/31/98*	*Weighted-Average Remaining Contractual Life*	*Weighted-Average Exercise Price*	*Number Exercisable at 8/31/98*	*Weighted-Average Exercise Price*
$ 3 to 7	804,093	1.98 yrs.	$ 5.99	804,093	$ 5.99
8 to 16	9,563,130	5.38	10.38	8,323,576	9.56
17 to 37	4,435,755	8.38	20.53	—	—
$ 3 to 37	14,802,978	6.09 yrs.	$13.18	9,127,669	$ 9.24

Under the Walgreen Co. 1982 Employees Stock Purchase Plan, eligible employees may purchase company stock at 90% of the fair market value at the date of purchase. Employees may purchase shares through cash purchases, loans or payroll deductions up to certain limits. The aggregate number of shares for which all participants have the right to purchase under this Plan is 32,000,000.

The Walgreen Co. Restricted Performance Share Plan provides for the granting of up to 16,000,000 shares of common stock to certain key employees, subject to restrictions as to continuous employment except in the case of death, normal retirement and total and permanent disability. Restrictions generally lapse over a four-year period from the date of grant. Compensation expense is recognized in the year of grant. Compensation expense related to the Plan was $5 million in both fiscal 1998 and 1997, and $4 million in fiscal 1996. The number of shares granted was 65,175 in fiscal 1998, 108,676 in fiscal 1997 and 129,456 in 1996.

The company applies Accounting Principles Board(APB) Opinion No. 25 and related Interpretations in accounting for its plans. Accordingly, no compensation expense has been recognized based on the fair value of its grants under these plans. Had compensation costs been determined consistent with the method of FASB Statement No. 123 for options granted in fiscal 1998, 1997 and 1996, pro forma net earnings and net earnings per common share would have been as follows *(In Millions, except per share data)*:

	1998	1997	1996
Net earnings			
As reported	$511	$436	$372
Pro forma	497	423	369
Net earnings per common share – Basic			
As reported	1.03	.89	.76
Pro forma	1.00	.86	.75
Net earnings per common share – Diluted			
As reported	1.02	.88	.75
Pro forma	.99	.85	.74

The weighted-average fair value and exercise price of options granted for fiscal 1998, 1997 and 1996 were as follows:

	1998	1997	1996
Granted at market price –			
Weighted-average fair value	$10.54	$ 6.65	$ 4.72
Weighted-average exercise price	28.16	16.51	12.34
Granted below market price –			
Weighted-average fair value	9.62	6.95	5.11
Weighted-average exercise price	27.65	18.40	13.95

The fair value of each option grant used in the pro forma net earnings and net earnings per share was determined using the Black-Scholes option pricing model with weighted-average assumptions used for grants in fiscal 1998, 1997 and 1996:

	1998	1997	1996
Risk-free interest rate	6.19%	6.29%	5.99%
Average life of option (years)	7	6	6
Volatility	20.39%	20.00%	19.94%
Dividend yield	.53%	1.07%	1.07%

Postretirement Healthcare Benefits

The components of the postretirement healthcare benefits costs for the last three fiscal years were as follows *(In Millions)*:

	1998	1997	1996
Service cost	$ 4	$ 4	$ 4
Interest cost	7	6	6
Total postretirement healthcare benefits costs	$11	$10	$10

The company's unfunded accumulated postretirement healthcare benefit liabilities at August 31, included in the Consolidated Balance Sheets, were as follows *(In Millions)*:

	1998	1997
Retirees	$ 27	$23
Fully eligible active plan participants	15	12
Other active plan participants	64	54
Accumulated postretirement benefit obligation	106	89
Unrecognized actuarial loss	(10)	(1)
Accrued postretirement benefit liability	$ 96	$88

The accumulated postretirement healthcare benefit obligation was determined assuming the discount rate was 7.0% and the healthcare cost trend rate was 7.0% for 1998 with a gradual decline over a six-year period to 5.0%. These trend rates reflect the company's prior experience and management's expectation that future rates will decline. The effect of a 1% increase each year in the projected healthcare cost trend rate would increase the accumulated postretirement benefit obligation at August 31, 1998, by $21 million and the service and interest cost components of the fiscal 1998 net periodic postretirement benefit cost by $3 million. The unrecognized actuarial amount is being amortized over the average remaining service period of active plan participants.

Supplementary Financial Information

Included in the Consolidated Balance Sheets captions are the following assets and liabilities *(In Millions)*:

	1998	1997
Accounts receivable –		
Accounts receivable	$384	$389
Allowances for doubtful accounts	(11)	(13)
	$373	$376
Accrued expenses and other liabilities –		
Accrued salaries	$196	$164
Taxes other than income taxes	85	82
Profit sharing	99	92
Other	238	216
	$618	$554

Summary of Quarterly Results *(Unaudited)*

(Dollars in Millions, except per share data)

		Quarter Ended				
		November	February	May	August	Fiscal Year
Fiscal 1998	Net sales	$3,485	$4,094	$3,887	$3,841	$15,307
	Gross profit	944	1,133	1,047	1,043	4,167
	Earnings before cumulative effect of accounting change	87	171	127	152	537
	Net earnings	61	171	127	152	511
	Per Common Share – Basic					
	Earnings before cumulative effect of accounting change	$ .18	$ .34	$ .26	$ .30	$ 1.08
	Net earnings	.13	.34	.26	.30	1.03
	Per Common Share – Diluted					
	Earnings before cumulative effect of accounting change	.18	.34	.25	.30	1.07
	Net earnings	.13	.34	.25	.30	1.02
Fiscal 1997	Net sales	$3,054	$3,603	$3,403	$3,303	$13,363
	Gross profit	830	1,006	933	912	3,681
	Net earnings	75	147	108	106	436
	Per Common Share – Basic	$ .15	$ .30	$ .22	$ .22	$ .89
	Per Common Share – Diluted	.15	.30	.21	.22	.88

Comments on Quarterly Results: The quarter ended August 31, 1998, includes the pre-tax gain of $37 million ($23 million after-tax or $.05 per share) from the sale of the company's long-term care pharmacy business.

Common Stock Prices

Below are the New York Stock Exchange high and low for each quarter of fiscal 1998 and 1997.

		Quarter Ended				
		November	February	May	August	Fiscal Year
Fiscal 1998	High	$ 32¾	$ 37⅛	36\frac{9}{16}$	48\frac{15}{16}$	48\frac{15}{16}$
	Low	25⅝	28¼	32⅞	36$\frac{3}{16}$	25⅝
Fiscal 1997	High	21\frac{7}{16}$	21\frac{13}{16}$	$ 23⅝	$ 29⅝	$ 29⅝
	Low	16½	19$\frac{7}{16}$	20$\frac{9}{16}$	23$\frac{5}{16}$	16½

Report of Independent Public Accountants

To the Board of Directors and Shareholders of Walgreen Co.:

We have audited the accompanying consolidated balance sheets of Walgreen Co. (an Illinois corporation) and Subsidiaries as of August 31, 1998 and 1997, and the related consolidated statements of earnings, shareholders' equity and cash flows for each of the three years in the period ended August 31, 1998. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Walgreen Co. and Subsidiaries as of August 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended August 31, 1998 in conformity with generally accepted accounting principles.

Arthur Andersen LLP

Chicago, Illinois,
September 25, 1998

Management's Report

The primary responsibility for the integrity and objectivity of the consolidated financial statements and related financial data rests with the management of Walgreen Co. The financial statements were prepared in conformity with generally accepted accounting principles appropriate in the circumstances and included amounts that were based on management's most prudent judgments and estimates relating to matters not concluded by fiscal year-end. Management believes that all material uncertainties have been either appropriately accounted for or disclosed. All other financial information included in this annual report is consistent with the financial statements.

The firm of Arthur Andersen LLP, independent public accountants, was engaged to render a professional opinion on Walgreen Co.'s consolidated financial statements. Their report contains an opinion based on their audit, which was made in accordance with generally accepted auditing standards and procedures, which they believed were sufficient to provide reasonable assurance that the consolidated financial statements, considered in their entirety, are not misleading and do not contain material errors.

Three outside members of the Board of Directors constitute the company's Audit Committee, which meets at least quarterly and is responsible for reviewing and monitoring the company's financial and accounting practices. Arthur Andersen LLP and the company's General Auditor meet alone with the Audit Committee, which also meets with the company's management to discuss financial matters, auditing and internal accounting controls.

The company's systems are designed to provide an effective system of internal accounting controls to obtain reasonable assurance at reasonable cost that assets are safeguarded from material loss or unauthorized use and transactions are executed in accordance with management's authorization and properly recorded. To this end, management maintains an internal control environment which is shaped by established operating policies and procedures, an appropriate division of responsibility at all organizational levels, and a corporate ethics policy which is monitored annually. The company also has an Internal Control Evaluation Committee, composed primarily of senior management from the Accounting and Auditing Departments, which oversees the evaluation of internal controls on a company-wide basis. Management believes it has appropriately responded to the internal auditors' and independent public accountants' recommendations concerning the company's internal control system.

L. Daniel Jorndt
President
and Chief Executive Officer

W. M. Rudolphsen
Controller
and Chief Accounting Officer

R. L. Polark
Senior Vice President
and Chief Financial Officer

Board of Directors

Directors

Charles R. Walgreen III
Chairman of the Board
Elected 1963

William C. Foote
Chairman of the Board and Chief Executive Officer, USG Corporation
Elected 1997

James J. Howard
Chairman of the Board, Chief Executive Officer and President, Northern States Power Company
Elected 1986

Charles D. Hunter
Former Vice Chairman and Chief Financial Officer
Elected 1974

L. Daniel Jorndt
President and Chief Executive Officer
Elected 1990

Cordell Reed
Former Senior Vice President, Commonwealth Edison Co.
Elected 1994

John B. Schwemm
Former Chairman and Chief Executive Officer, R.R. Donnelley & Sons Co.
Elected 1985

William H. Springer
Former Vice Chairman, Ameritech Corporation
Elected 1988

Marilou M. von Ferstel
Former Executive Vice President and General Manager, Ogilvy Adams & Rinehart
Elected 1987

Committees

Executive Committee
L. Daniel Jorndt, Chairman
Charles D. Hunter
Cordell Reed
John B. Schwemm
William H. Springer

Audit Committee
John B. Schwemm, Chairman
William C. Foote
Marilou M. von Ferstel

Compensation Committee
William H. Springer, Chairman
James J. Howard
John B. Schwemm

Finance Committee
Charles D. Hunter, Chairman
L. Daniel Jorndt
Cordell Reed
Charles R. Walgreen III

Nominating and Governance Committee
John B. Schwemm, Chairman
James J. Howard
Marilou M. von Ferstel

Officers

Corporate

President
L. Daniel Jorndt
Chief Executive Officer

Executive Vice Presidents
Vernon A. Brunner
Marketing
Glenn S. Kraiss
Store Operations

Senior Vice Presidents
David W. Bernauer*
Chief Information Officer
Roger L. Polark
Chief Financial Officer
John A. Rubino
Human Resources
William A. Shiel
Facilities Development

Vice Presidents
Robert C. Atlas
Eastern Store Operations
W. Lynn Earnest
Central Store Operations
Robert H. Halaska
President, Walgreens Health Initiatives
Jerome B. Karlin
Western Store Operations
J. Randolph Lewis
Distribution & Logistics
Julian A. Oettinger
General Counsel, Corporate Secretary

Assistant Secretaries
Nancy J. Godfrey
Dana I. Green
Edward H. King
Joel H. Levin
Allan M. Resnick

Assistant Treasurers
Robert E. Kahng
John M. Palizza

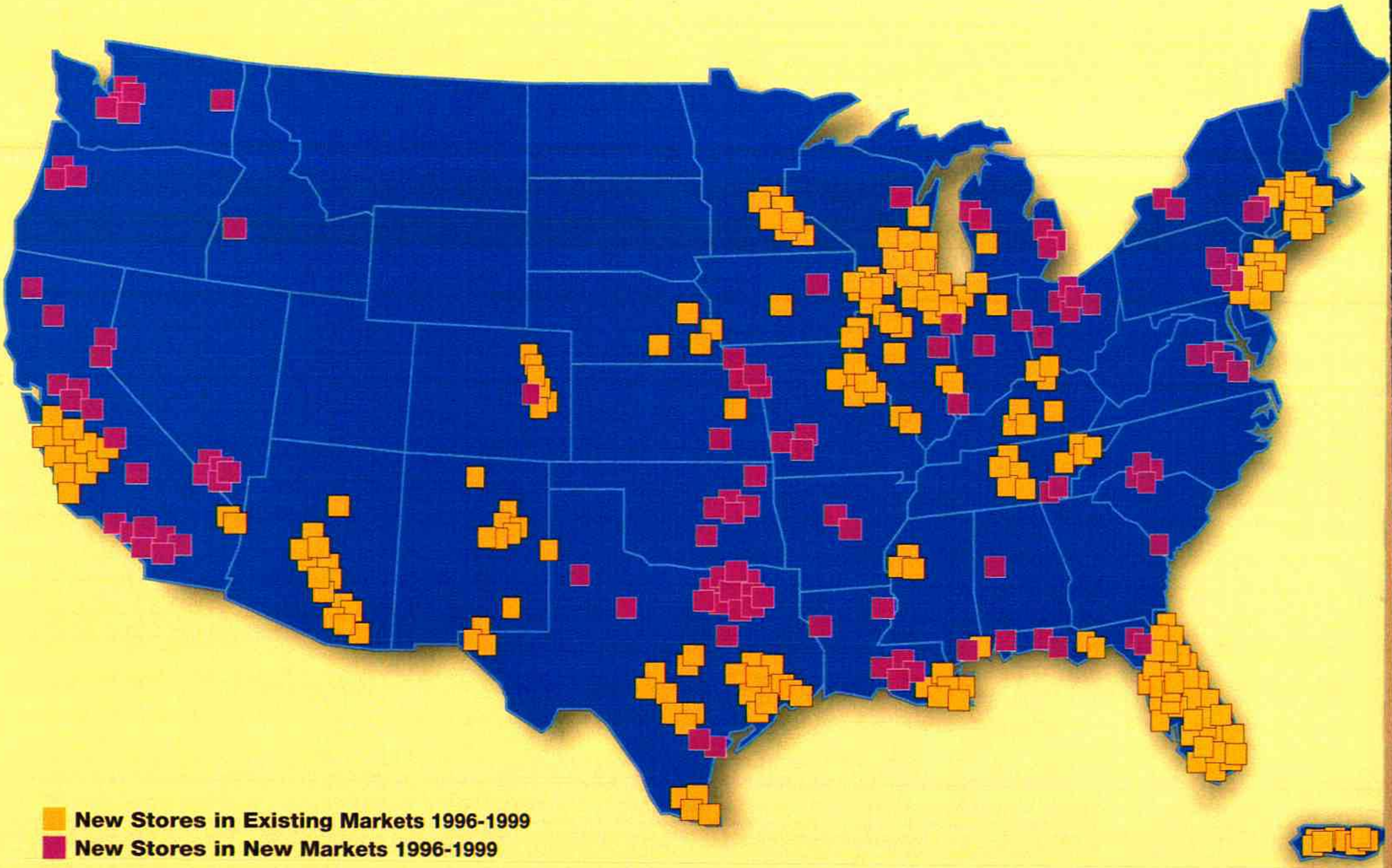
**Mr. Bernauer will become President and Chief Operating Officer in January 1999.*

Regional and Divisional

Regional Vice Presidents
Drug Store Division
Enrique F. Anglade
R. Bruce Bryant
James F. Cnota
George C. Eilers
Patrick E. Hanifen
Don R. Holman
Barry L. Markl
Robert G. McKillop
Richard L. Moyer
Richard Robinson
Bill J. Vernon
Kevin P. Walgreen
Edward E. Williams
Bruce C. Zarkowsky

Divisional Vice Presidents
John W. Gleeson
Marketing Systems and Services
Dana I. Green
Employee Relations
Joel H. Levin
Tax
Dennis R. O'Dell
Health Services
Mark R. Paul
Purchasing/Merchandising
Jeffrey A. Rein
Treasurer
Allan M. Resnick
Law
William M. Rudolphsen
Controller
Robert E. Sgarlata
Purchasing/Merchandising
Craig M. Sinclair
Corporate Advertising
Chester G. Young
General Auditor

Where Walgreens Is Going...



...and Where Walgreens Is Now

State	1998	1997
Alabama	1	0
Arizona	137	134
Arkansas	9	9
California	196	168
Colorado	53	53
Connecticut	32	32
Florida	412	395
Illinois	345	330
Indiana	103	100
Iowa	33	31
Kansas	20	17
Kentucky	39	39
Louisiana	55	49
Massachusetts	73	72
Michigan	40	28
Minnesota	64	62
Mississippi	7	5
Missouri	82	75
Nebraska	30	29
Nevada	16	11
New Hampshire	9	9
New Jersey	40	38
New Mexico	40	37
New York	34	30
North Dakota	1	1
Ohio	76	61
Oklahoma	26	22
Oregon	12	5
Pennsylvania	7	5
Rhode Island	14	12
Tennessee	85	81
Texas	261	234
Virginia	12	5
Washington	22	19
Wisconsin	119	115
Puerto Rico	44	45
Total	**2,549**	**2,358**

Information is provided as of fiscal year-end.

Drugstore Unit and Sales Overview

	Fiscal Year	1998	1997	1996	1995	1994
Drugstore Units	Openings					
	New Stores	303	247	205	202	194
	Acquisitions	1	4	5	4	2
	Remodelings	47	46	71	84	70
	Closings	113	86	102	89	64
	Year End: Units *(1)*	2,549	2,358	2,193	2,085	1,968
	Year End: Sales Area *(2)*	26,024	23,935	22,124	20,731	19,342
Product Class Sales	Prescription Drugs	50%	47%	45%	43%	41%
	Nonprescription Drugs *(3)*	12	13	13	13	13
	Cosmetics, Toiletries *(3)*	8	8	8	8	9
	General Merchandise *(3)*	25	26	27	28	28
	Liquor, Beverages	5	6	7	8	9

(1) Includes 62 pharmacy-only units and two mail service facilities.
(2) In thousands of square feet.
(3) Estimates based, in part, on store scanning information.

Shareholder Information

Corporate Headquarters
Walgreen Co.
200 Wilmot Road
Deerfield, Illinois 60015
(847) 940-2500

Internet Address
Major press releases and other information are available on Walgreens website: *www.walgreens.com*

Stock Market Listings
New York Stock Exchange
Chicago Stock Exchange
Symbol: WAG

Investor Contacts
John M. Palizza
Jeffrey A. Rein

Annual Shareholders' Meeting
You are cordially invited to attend the meeting to be held Wednesday, January 13, 1999, 2 p.m. in the Grand Ballroom, Navy Pier, Chicago, Illinois.

Formal notice of the meeting, with proxy card and proxy statement, was mailed to all shareholders of record as of November 16, 1998.

Shareholder Communications
Please address inquiries or comments to:

Shareholder Relations
Walgreen Co. – Mail Stop #2261
200 Wilmot Road
Deerfield, Illinois 60015
(847) 914-2972

The company's annual report to the Securities and Exchange Commission, Form 10-K, may be obtained by any shareholder, free of charge, upon written request.

Quarterly Reports
Quarterly earnings release dates for 1999 are January 4, March 29, June 28 and October 4. Results are released to the press and posted on Walgreens website. Quarterly reports are also mailed to shareholders on request. You may request reports at any time by contacting Shareholder Relations, (847) 914-2972.

Dividend Payment Dates
Walgreens pays dividends in March, June, September and December. Checks are customarily mailed on approximately the 12th of each of these months.

Transfer Agent and Registrar
For assistance on matters such as lost shares or name changes on shares, please contact:
Harris Trust and Savings Bank
Shareholder Services
311 West Monroe Street, 14th Floor
Chicago, Illinois 60690
(888) 368-7346
E-mail: webshare@harrisbank.com
Website: www.harrisbank.com/corporations/shareholders/index.html

Direct Stock Purchase Plan
(Replaced Walgreens Dividend Reinvestment Plan in September 1997)
Harris Trust and Savings Bank is sponsoring and administering a direct stock purchase plan called Harris DOCS as a convenient method of acquiring additional Walgreen stock by reinvestment of dividends, optional cash payments, or both. For an information booklet and enrollment form, please call (888) 368-7346 (shareholders) or (888) 290-7264 (non-shareholders). General inquiries to Harris regarding your Walgreen stock should be directed to (888) 368-7346.

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